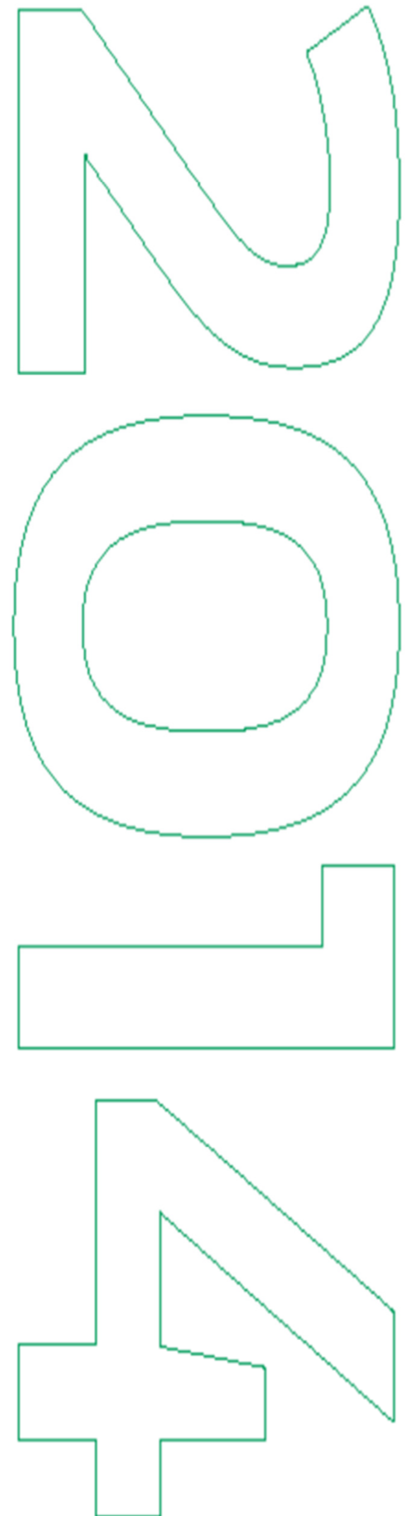
FCE Bank plc
Pillar 3 Disclosures
Excl. remuneration
For the year ended 31 December 2014



Definitions and registered office details

www.fcebank.com

FCE Bank plc. Central Office, Eagle Way, Brentwood, Essex CM13 3AR

Registered in England and Wales no 772784

Definitions

For the purpose of this report the term

- **i.** '**2014 Annual Report and Accounts**' means FCE's consolidated annual financial statements as at and for the year ended 31 December 2014.
- **ii.** '**Company**' means FCE Bank plc including all its European branches, but excluding its subsidiaries and Structured Entities (SEs).
- **iii.** **'Europe'** means the 19 markets where FCE provides financial services. These are; Austria, Belgium, Britain, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Netherlands, Norway, Poland, Portugal, Spain, Sweden and Switzerland.
- **iv.** '**Group**' or **'FCE'** means the Company and its subsidiaries and Structured Entities (SEs).
- **v.** **'FCSH'** means FCSH GmbH a limited liability company incorporated under the laws of Switzerland and a direct subsidiary of FCI.
- **vi.** '**FCI**' means Ford Credit International Inc., a company incorporated under the laws of Delaware USA and a direct subsidiary of Ford Credit.
- **vii.** '**Ford Credit'** or '**FMCC**' means Ford Motor Credit Company LLC, a limited liability company organised 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 Group'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.** **'Structured Entities'** or '**SE**' means a bankruptcy-remote entity whose operations are limited to the acquisition and financing of specific assets (which may include the issue of asset backed securities and making payments on these securities) and in which FCE usually has no legal ownership or management control.
- **xi.** **'PRA'** is the Prudential Regulation Authority, an independent non-governmental body that is a subsidiary of the Bank of England. It is responsible for the 'Prudential' regulation (such as capital and liquidity requirements) of the systemically important firms, including banks (as well as insurers and certain investment firms) in the United Kingdom.
- **xii.** **'FCA'** is the Financial Conduct Authority and acts as the 'Conduct' regulator of firms regulated by the PRA, supervising how firms conduct their business. The FCA is looking to promote confidence and transparency in financial services and to give greater protection for consumers of financial services in the United Kingdom.
- **xiii.** **'Own funds'** is the value of regulatory capital calculated in accordance with the relevant legislation in force.
- **xiv.** '**CRDIV'** is the new capital and liquidity standards known as Basel III transposed into European regulations with effect from 1st January 2014.
- **xv.** **'Fully loaded'** means figures calculated using the final CRDIV rules rather than any transitional ones that would give a more favourable result (also referred to as 'end point').

For a comprehensive list of definitions refer to the 'Glossary of defined terms' which commences on page 36.

Contents

Introduction

Contents 3
Highlights 4
Business overview: Description of the Business 6

Risk

Risk management 7
Key risks 8
Credit risk 8
Retail credit risk management 8
Vehicle residual value risk 8
Wholesale credit risk management 9
Other credit risk management 9
Credit valuation adjustment 9
Operational risk 9
Market risk 9
Other risks 11
Interest rate risk 12

Capital and funding

Capital adequacy and strategy 13
Funding 13
Securitisation 13
Liquidity coverage ratio 13

Risk Committee Report

Risk profile and risk management framework 14
Risk governance 15

Quantitative information

Quantitative information index 16
Capital ratios 17
Consolidation and solo consolidation 17
Own funds 18
Pillar 1 capital requirements: Total 21
Pillar 1 capital requirements: Credit risk 22
Counterparty credit risk 32
Leverage ratio 34
Asset encumbrance 35

Other information

Glossary of defined terms 36

FCE Bank plc publishes its main 2014 Pillar 3 disclosures within this document and provides those disclosures relating to remuneration in a separate document. Both reports are based on the best available data at the time of issuance and have been prepared in accordance with Part Eight of the Capital Requirements Regulation (CRR), and include both qualitative and quantitative information. While the 2014 values have been calculated under the CRDIV rules, where prior year figures are shown for comparative purposes, these reflect the pre 2014 Basel II requirements.

These documents do not replace the Group's statutory Annual Report and Accounts which are prepared in accordance with International Financial Reporting Standards (IFRS). All the reports are available on the website; **www.fcebank.com**.

Certain figures disclosed in these reports have been used as management information and have not been externally verified by independent auditors but there is a thorough internal control governance process in place and a significant amount of the information has already been disclosed within FCE's audited 2014 Annual Report and Accounts.

Highlights

Chart 1: FCE's Loans and advances and credit risk weighted exposures
£ Billions

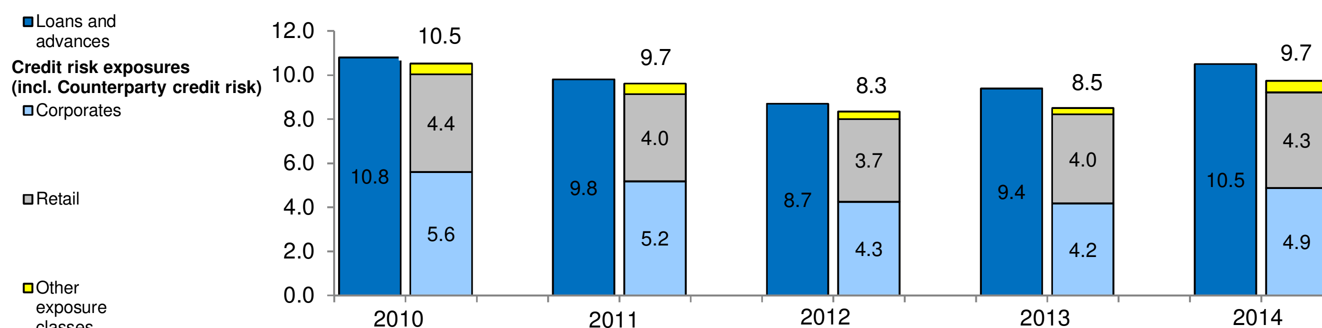


Chart 2: FCE's Own funds and Pillar 1 capital requirements
£ Billions

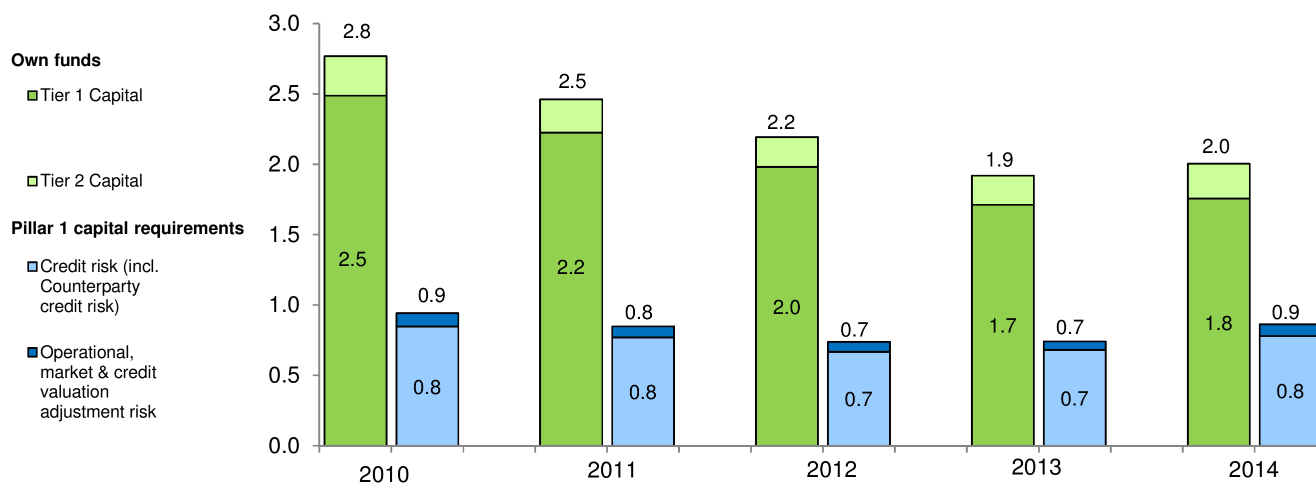
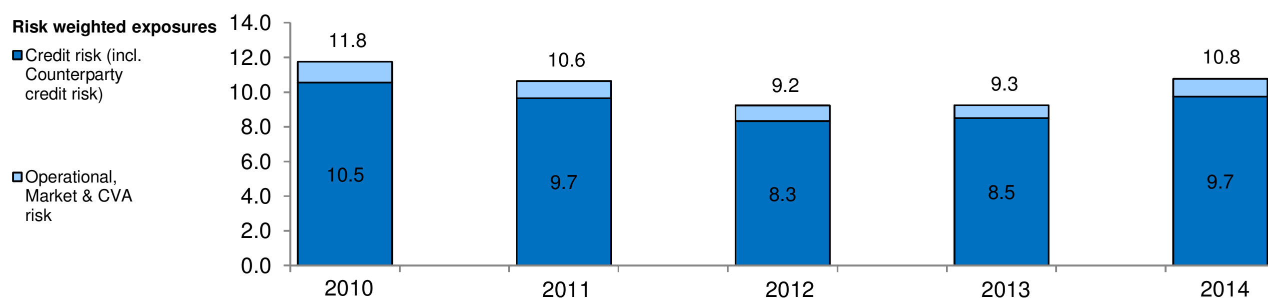


Chart 3: FCE's Total risk weighted exposures
£ Billions



Highlights

Introduction

FCE's 2014 pillar 3 disclosure documents have been prepared in accordance with the requirements in Part Eight of the Capital Requirements Regulation (CRR) for the year ended 31 December 2014. As detailed in FCE's Annual Report and Accounts, FCE has adapted its regulatory reporting processes and associated disclosures in order to fully comply with the new Capital Requirements Directive (2013/36/EU) and Capital Requirements Regulation (EU 575/2013). In line with these requirements, FCE has also made some changes to the 2014 pillar 3 disclosures contained herein. FCE publishes its pillar 3 disclosures at least annually and assesses on a regular basis through the year the need to publish some or all of the disclosures more frequently if there is a significant change in the relevant characteristics of the business.

The quantitative disclosures in this document are reported on a consolidated basis (referred to as 'Group' in FCE's 2014 Annual Report and Accounts) unless specified otherwise. The consolidated Group is not considered materially different from that reported under solo consolidation, please see Note 2 'Consolidation and solo consolidation' for further details.

This document has been reviewed and approved by both the FCE Executive Committee and the FCE Audit Committee, following thorough reviews and approvals from FCE's internal second line of defence and associated governance processes. The information contained in this document has not been audited by FCE's external auditors – PricewaterhouseCoopers LLP.

Risk profile

FCE's risk appetite is set by its Board of Directors and is clearly defined, monitored and managed through its risk appetite framework.

FCE's risk profile remains materially unchanged from 2013 reflecting FCE's stable business model and risk appetite.

Loans and advances

FCE's Net Loans and Advances have increased by £1.1 billion in 2014 to £10.5 billion (2013: £9.4 billion) primarily reflecting the growth in FCE's Retail and Wholesale portfolios due to an increase in contract sales and higher dealer stocks respectively. See chart 1 opposite.

Credit risk weighted exposures

The increase in the loans and advances described above has resulted in an increase in credit risk weighted exposures of £1.2 billion in 2014 to £9.7 billion (2013: £8.5 billion). See chart 1 opposite.

Pillar 1 capital requirements

The growth in FCE's portfolio and credit risk weighted exposures has resulted in an increase in Pillar 1 capital requirements of £0.2 billion in 2014 to £0.9 billion (2013: £0.7 billion) which is in line with FCE's forecast and capital plan.

Own funds

FCE held £2.0 billion of own funds as at December 2014 compared to £1.9 billion in 2013. See chart 2 opposite. FCE's 2014 profits were £147 million. No dividend payments were made during 2014 in line with FCE's capital plan.

FCE's policy is to manage its own funds to targeted levels taking into account all current and expected future regulatory requirements based on anticipated changes in assets. FCE has decided to adopt the CRDIV fully loaded basis for capital planning from January 2014. FCE forecasts and monitors its future regulatory requirements through the monthly, quarterly, annual and 5 year forecasts, funding and capital planning processes.

FCE's Common Equity Tier 1 (CET1) ratio was 16.3% and total capital ratio was 18.6% (2013: 20.7%), both exceeding minimum CRDIV requirements.

The reduction in own funds since 2010 of £0.8 billion is due to FCE paying dividends between 2010 and 2013 in line with its policy to realign its capital base with the size, scale and risk profile of its business model.

Outlook

FCE expects to remain strongly capitalised throughout the next five year business plan period.

Business overview: Description of the business

Organisational structure

FCE is a United Kingdom (UK) registered bank authorised by the Prudential Regulation Authority (PRA). FCE is a direct subsidiary of FCSH GmbH (FCSH), which in turn is a direct 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).

Regulatory status

FCE is regulated by the Financial Conduct Authority (FCA) and PRA and is authorised to conduct a range of regulated activities within the UK and through a branch network in ten other European countries, and is subject to consolidated supervision through varying EU directives. For further details, please see FCE's 2014 Annual Report and Accounts.

Mission

FCE's aim is to be recognised as the leader in providing automotive financial products and services to Ford, its dealers and customers, as well as consistently adding shareholder value. Its business is best described in the context of its three main customer groups – Ford's automotive operations, retail customers and dealers.

Customers and products

FCE supports Ford's automotive operations by providing:

- high quality customer service that has been proven to increase customer loyalty to the Ford brand;
- a pan-European branded finance network dedicated to supporting the sale of Ford products;
- financial risk management support to ensure continuity and viability of the Ford Dealer distribution network;
- specialist support for key business, customer segments and new market expansions.

FCE supports Ford retail customers acquire Ford vehicles by providing:

- consumer lending to retail customers to purchase or lease vehicles (referred to as 'Retail');
- access to insurance products to protect customers when driving Ford vehicles;
- financing products for fleet or business customers.

FCE's business model goes beyond simply providing access for customers to purchase or lease a motor vehicle through finance. FCE strives to enable the customer to replace their vehicle as often as they would like, while maintaining affordable monthly payments. FCE's presence in the showroom enables the customer to benefit from the convenience of arranging finance and insurance in the dealership, and from the superior service provided by an organisation dedicated to treating customers with fairness and respect.

FCE remains focused on improving the customer ownership experience by developing new services, including its customer-facing online presence in major locations.

FCE supports Ford dealers sell Ford vehicles by providing:

- financing for new and used vehicle inventory (referred to as 'Wholesale');
- an appreciation and understanding of the automotive dealer business and the financing required to optimise their business model, through different economic environments.

FCE's delivery of high-quality customer service combined with the right finance product for the customer drives greater loyalty to the brand and the dealer. Market research over different countries and sectors consistently shows that FCE customers are significantly more likely to purchase their next vehicle from the same dealer.

Operational footprint

FCE operates directly in 15 European countries through a branch and subsidiary network providing branded financial services for Ford. The Company also has a Worldwide Trade Finance (WWTF) division, which provides finance to distributors and importers in about 60 countries. In addition, FCE has a 50% less one share interest in Forso Nordic AB (Forso) which provides automotive financial services in Denmark, Finland, Norway and Sweden.

Business environment

During the period, FCE continued to experience a challenging business environment with economic recovery being gradual and inconsistently distributed across its markets. FCE benefitted from the relative economic stability in its two largest markets, the UK and Germany, with the UK in particular showing a strong performance.

Profitability for 2014 summary

Profits from operating activities were in line with our expectations, but marginally lower than in 2013. This is explained by lower margin primarily reflecting a one-time provision in Germany, partially offset by FCE's portfolio growth. FCE did not pay a dividend in 2014. Based on present assumptions it does expect to pay a dividend in 2015. This is in line with FCE's capital plan.

Risk management

Although the European economic environment continues to be challenging, FCE has managed its wholesale and retail portfolios so that they perform in line with our expectations. Our credit loss ratio of 0.16% continues to be near to FCE's historically low levels. This demonstrates FCE's ability to leverage its comprehensive knowledge of its high quality origination and servicing procedures.

Outlook

Looking to 2015 and beyond, our plans are anchored in our intention to continue to grow our business in a controlled manner. By doing so we will support Ford of Europe's retail market share growth, and serve more of its customers in a way that engenders enhanced loyalty to the Ford brand and the dealer.

Business overview: Risk

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. For further details please see the Risk Committee Report on pages 14 and 15.

FCE is exposed to several types of risk. The key risks identified at present are: credit (retail and wholesale), vehicle residual value, operational, market, concentration, pension, liquidity, group, conduct and interest rate risks. These are described in more detail below.

Risk management

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.

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 consistently with these risks.

Risks are overseen and monitored by the Board, the Risk Committee of the Board and the Executive Committee. Accordingly, FCE's Risk Appetite Framework is integrated within the governance structure of FCE and informs the day-to-day risk management processes/policies to 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 50 years of experience in the specialist field of automotive sector lending.

FCE's Risk Management follows the Three Lines of Defence model which ensures clear delineation of responsibilities between day-to-day operations, monitoring and oversight as well as independent assurance.

First line of defence

The first line of defence are the operational staff and departmental management with responsibility for following robust procedures and controls to mitigate any risks inherent in the operations of the business in accordance with agreed risk policies, appetite and controls.

FCE has an embedded control framework with prescribed controls designed into its systems and day-to-day processes, including self-assessment audit tools and reporting requirements through to the second line of defence.

Second line of defence

Central office based teams such as Compliance, Risk, Finance, Operations and the Internal Controls Office (ICO) undertake the second line of defence monitoring and are responsible for the oversight of the pan-European procedures and controls executed by the business line management.

Each of the control functions in the second line of defence report into one or more of FCE's committees as delegated by the Board.

The committees monitor and challenge the performance metrics, review various management information and key risk indicators and escalate, when necessary, through FCE's governance structure.

Third line of defence

The third line of defence provides independent assurance to the Audit Committee and comprises the Ford General Auditors Office ('GAO'). GAO auditors audit the business frontlines and the oversight functions to ensure that they are carrying out their tasks to the required level of competency.

FCE also recognises the importance of the Risk Committee of the Board, Audit Committee, NEDs, external auditors and consultants in providing independent insight and challenge to FCE's risk management and control framework leading to continuous improvement actions as and when required.

Principal risks and uncertainties

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

Business overview: Risk

Key risks

FCE's Pillar 1 capital requirements are calculated using distinct approaches for each of the following risk types:

- Credit risk including counterparty credit risk
- Credit valuation adjustment (CVA)
- Operational risk
- Market risk

The nature of these risks, along with the other key risks facing FCE, are discussed in more detail in the remainder of this section.

Credit risk

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 wholesale portfolios to balance the levels of risk and return.

Prior to 2014, under Basel II, FCE calculated risk weighted exposures according to the simplified approach. This approach ceased to exist with CRDIV and therefore FCE adopted the standardised approach for assessing the Pillar 1 capital requirements for credit risk using standard industry-wide risk weightings based on the classification of asset and counterparty types. Please refer to Note 6 'Credit risk' as the tables provide further details of the new weightings applied.

Retail (Consumer and Commercial) credit risk management

Retail products (vehicle instalment sale, hire purchase, conditional sale and finance lease contracts) are classified by term and whether the vehicle financed is new or used. This segmentation is used to assist with product pricing to ensure risk factors are appropriately considered.

Retail consumer credit underwriting typically includes a credit bureau review of each applicant together with an internal review and verification process. Statistically based retail credit risk rating models are typically used to determine the creditworthiness of applicants. Portfolio performance is monitored regularly and FCE's originations processes and models are reviewed, revalidated and recalibrated as necessary. Retail credit loss management strategy is based on extensive experience.

FCE also provides automotive financing for commercial entities, including daily rental companies. Each commercial lending request is carefully evaluated based on the information requested and supported by credit bureau data wherever available.

In the majority of locations, FCE operates centralised originations, servicing and collections activities. Centralisation offers economies of scale and enhances process consistency. The UK and Germany customer service centres employ advanced servicing technology and enhanced risk management techniques and controls. These include customer behavioural models that are used in contract servicing to ensure contracts receive appropriate collection attention.

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

Vehicle residual value risk

This is the risk that the actual proceeds realised by FCE upon the sale of a returned vehicle at the end of the contract will be lower than that forecast at the beginning of the contract. FCE is prepared to incur vehicle residual value risk, predominantly in respect of Ford brand vehicles, as a key factor in its product offerings and its strategic desire to promote Trade Cycle Management (TCM) concepts. Vehicle residual values are set based on a careful evaluation of internal and external data sources and subject to review and approval by the appropriate committee.

TCM contracts, which are the vast majority of contracts for which FCE accepts vehicle residual value risk, are typically set below expected market value by an amount equal to 5-8% of the vehicle's list price in order to generate equity for the customer at the end of the contract. Other contracts are set at the expected future value of the vehicle.

This prudent approach to establishing vehicle residual values, along with other proven mitigators, reduces the potential volatility from this risk.

With respect to FCE's operating lease portfolio, residual risk is reduced by an arrangement with Ford, under which Ford indemnifies FCE for the majority of residual value losses and receives the benefit of the majority of residual value gains.

Wholesale credit risk management

FCE extends commercial credit to franchised dealers selling Ford vehicles, primarily to purchase stocks of new and used vehicles (vehicle wholesale financing) and financing for dealer vehicles (e.g. demonstrator or courtesy vehicles), and to a much lesser extent, wholesale financing for spare parts and loans for working capital and property acquisitions. For the vast majority of FCE's dealer financing products, security is taken in the underlying vehicle asset.

Each dealer lending request is evaluated, taking into consideration the borrower's financial condition, supporting security, debt servicing capacity, and numerous other financial and qualitative factors.

All credit exposures are scheduled for review at least annually at the appropriate credit committee. Asset verification processes are in place and include physical audits of vehicle stocks with increased audit frequency for higher risk dealers. In addition, stock-financing payoffs are monitored to detect adverse deviations from typical payoff patterns, in which case appropriate actions are taken.

Other credit risk management

The Group could also incur a credit loss if the counterparty to an investment, deposit, interest rate or foreign currency derivative with FCE defaults.

This is known as counterparty credit risk for regulatory reporting and two calculation methods are permitted by the regulator. FCE uses the Mark to Market Method (MTM, also known as the Current Exposure Method (CEM)), which is the sum of the current market value of an instrument (the replacement cost) plus the potential future exposure add on as defined in the CRR. The sum of these equates to the 'Exposure at Default' (EAD) value. Please see Note 12 'Counterparty credit risk' on page 32 for further details.

Credit valuation adjustment (CVA)

In addition to a credit loss caused by a counterparty default, banks can also suffer mark to market losses associated with the counterparty's creditworthiness and this is termed CVA. The new CRDIV regulation requires banks to hold additional capital for this and FCE uses the standardised method for its calculation.

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 process failure, human error and shortcomings in the organisational structure, and lapses in internal controls, fraud or external threats.

To assess Pillar 1 capital requirements for operational risk, FCE qualifies for both the Basic Indicator approach (BIA) and the standardised approach. As FCE has two distinct product lines it has adopted the standardised approach, where a firm divides its activities into a number of business lines and applies the relevant beta factor to each one. FCE divides its business into retail and wholesale funding and therefore applies the 12% retail banking factor to the 'income indicator' relating to retail, and the 15% commercial banking factor to the wholesale 'income indicator', as specified in the CRR. Please see Note 5 'Pillar 1 Capital requirement split by risk type' on page 21 for further details.

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 as outlined on page 7, to manage and mitigate operational risk through a robust governance framework.

The Operational Risk Sub-Committee, a sub-committee of the Executive Operational Risk Committee (ORC), co-ordinates the identification, control and monitoring of the operational risks across business lines, product areas, and geographies. The Executive ORC has ultimate responsibility for operational risk 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, to ensure suitable procedures and contingency plans are in place to minimise the risk of information technology process failures and to ensure 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 are responsible for managing operational risk, including transformational risk and this will apply to the new Business Centre in Manchester (as described in the Chief Executive Officer's statement in FCE's 2014 Annual Report and Accounts). FCE also maintains a strong internal control culture across the organisation through the Modular Control Review Programme, a self-assessment control process.

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.

Market risk

This is the risk of adverse impacts to FCE's profits as a result of changes to exchange rates and interest rates. Interest rate and currency exposures are managed by FCE as an integral part of its overall risk management programme, which recognises the unpredictability of financial markets and seeks to reduce the potential adverse effects on FCE's results.

FCE reduces its exposure to market risk through the use of interest rate and foreign currency exchange derivatives. The table overleaf provides further details.

Business overview: Risk

Market risk continued

The objective of FCE's market risk management is to lock-in 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 operating results.

The market risk Pillar 1 capital requirement is made up of a number of risk elements, all of which require their Position Risk Requirement (PRR) to be calculated.

FCE does not have a trading book therefore the main exposure is to currency movements. Under CRDIV rules there is a threshold that triggers a bank to hold capital in relation to foreign-exchange positions, FCE exceeds this and therefore includes the foreign currency PRR in the market risk capital requirement.

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	- Cross currency interest rate swaps - Foreign currency forward contracts
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	- Pay floating rate and receive fixed rate interest rate swaps
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	- Pay fixed rate and receive floating rate interest rate swaps

Derivatives policy

Exposure to 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

Derivatives control

Company policies and controls are in place to manage these risks, including derivative effectiveness testing for derivatives designated in a hedging relationship.

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 review of portfolio mark to market valuations and potential future exposures
- Monitoring of counterparty creditworthiness
- Internal audits to evaluate controls and adherence to policies
- Reporting all derivatives to ESMA approved repository
- Regular portfolio reconciliations with all counterparties
- Timely confirmation of all Over The Counter (OTC) derivatives

Business overview: Risk

Other risks

In addition to the risk types for which Pillar 1 capital requirements are calculated, 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. These are detailed below:

'Concentration risk' is the risk resulting from FCE's concentration of exposures within geographic regions, sectors and large dealer and fleets. FCE is prepared to incur concentration risk, subject to the risk appetite established by the board and regulatory requirements, where this is consistent with executing its mission as a captive automotive finance provider.

Due to FCE's focus on the automotive sector, its wholesale portfolio is the business segment most exposed to concentration risk. However, it is FCE's view that this risk is mitigated by a number of positive characteristics of its wholesale business model, such as retention of title, the short-term nature of the funding and the realisable value of the asset within a reasonable timeframe.

The retail portfolio consists of individual loans to retail and lease customers across multiple markets and FCE's analysis indicates sufficient granularity within the portfolio to not pose a significant concentration risk.

'Pension risk' arises from FCE's obligations as a result of participating in defined benefit pension schemes for its employees. The most significant retirement benefit obligations to FCE relate to the UK and 'German Foveruka' pension plans. These are principally Ford plans in which FCE is a participating employer. FCE recognises there is inherent volatility in the investment markets that will affect the liabilities of the schemes at any point in time and that the pension liabilities increase over time as longevity assumptions extend and the active workforce/ pensioner balance matures. For the UK plans, Ford is responsible for funding any deficit which may arise from time to time.

FCE uses internal and external actuaries to review the pension liabilities, which is a key part of FCE's capital planning. FCE, in conjunction with Ford, leverages in-house US-based pensions management expertise to assist with recommendations to the UK Pension Fund Trustees on investment strategy and liability management.

'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 unsecured debt, securitisation and equity, with debt that, on average, matures later than assets liquidate.

FCE holds liquidity in the form of cash and committed capacity. FCE's committed capacity is in the form of committed securitisation capacity (which is free of material adverse change clauses, restrictive financial covenants and credit rating triggers), and contractually committed unsecured credit facilities (which have similar terms with the exception of certain covenants).

For further details, please refer to Note 17 'Securitisation and related financing' and Note 41 'Liquidity risk' in FCE's 2014 Annual Report and Accounts.

Processes embedded in FCE's governance include liquidity forecasting and reporting against risk tolerances, stress/scenario testing and contingent planning. FCE's Board of Directors recognises that liquidity may be affected by the following liquidity risk drivers, which are material to FCE:

- Wholesale funding risk;
- Non marketable assets risk;
- Franchise-viability risk;
- Funding concentration risk;
- Cross currency liquidity risk;
- Intra-day liquidity risk; and
- Off balance sheet risk.

FCE has risk appetites against each of these.

'Group risk' is the risk of a loss arising due to FCE's association with its parent company. As a captive automotive finance company, FCE has an inherent exposure to Ford, however, this is carefully monitored through FCE's Large Exposure monitoring process and credit risk mitigation techniques are used to manage this. Please see Note 6 'Credit Risk by exposure type and class' on pages 22 and 23 for more details. Exposure is also minimised through strong adherence to internal policies which ensures an arm's-length approach to all transactions and 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 documented internal service level agreements which typically provide for ring fenced capabilities.

'Conduct risk' is the risk to FCE's consumer experience and brand from poor consumer outcomes that could, in certain circumstances, lead to intervention or enforcement actions by the regulator.

FCE's objective is to demonstrate and ensure fair outcomes to consumers throughout the conduct risk lifecycle which includes product governance, consumers' retail experiences with FCE and post-sale processes. Conduct risk is managed within each of FCE's business operations with oversight from FCE's central compliance function.

FCE offers well established finance products to its customers and has comprehensive controls to ensure that its sales processes, including the introduction of new products, or changes to existing products, ensure fair customer outcomes as well as meeting all regulatory requirements. FCE also monitors customers' retail experiences, including post sales processes, through monitoring of performance data such as complaints metrics as well as through periodic surveys.

Business overview: Risk

'Interest rate risk' is the risk arising from fluctuating interest rates. 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 2.5 years, and floating rate wholesale financing loans with an average life of approximately 60 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.

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.

The FCE's Asset and Liability Management Committee (ALCO) reviews re-pricing gaps monthly and approves interest rate swaps required to maintain exposure within the approved thresholds.

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 2014 and 2013 is detailed below.

	Group	
Net interest income impact of 100 basis point rate change	**2014 £ mil**	**2013 £ mil**
Euro	£ 6	£ 6
Sterling	2	1
Other	1	-
Increase	£ 9	£ 7
Euro	£ (6)	£ (6)
Sterling	(2)	(1)
Other	(1)	-
Decrease	£ (9)	£ (7)

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.

Business overview: Capital and funding

Capital

On the 1 January 2014 the new Capital Requirements Regulation and amended Capital Requirements Directive implemented Basel III within the European Union (EU), collectively known as CRDIV. CRDIV includes enhanced requirements for:

- the quality and quantity of capital;
- a basis for the new liquidity and leverage requirements;
- new rules for counterparty risk;
- new macro prudential standards including a countercyclical capital buffer and capital buffers for systemically important institutions and;
- enhanced disclosures on encumbered assets, the leverage ratio and additional risk appetite disclosures.

FCE's policy is to manage its capital base to targeted levels taking into account all current and expected future regulatory requirements and anticipated changes in assets reflecting its strategy of controlled growth. FCE total net loans and advances have increased in 2014 to £10.5 billion (2013: £9.4 billion) contributing to a higher value of credit risk weighted exposures, however, consistent with its plans, FCE remains strongly capitalised. As at 31 December 2014, FCE's fully loaded Common Equity Tier 1 (CET 1) ratio was 16.3% and the total capital ratio was 18.6% (2013: 20.7%).

FCE's Tier 1 capital is wholly made up of Common Equity Tier 1 (CET1) capital which comprises shareholder funds, net of required deductions. FCE's Tier 2 capital comprises subordinated debt and collective impairment losses.

FCE's consolidated regulatory capital adequacy is monitored through its monthly ALCO in which actual and projected capital adequacy positions are measured against capital resource requirements as determined by internal assessment (ICAAP) and minimum regulatory levels. For more details, please refer to Note 3 'Components of capital' on page 18 and 19.

Funding sources

FCE's funding strategy is to have sufficient liquidity to profitably support Ford, its dealers and customers in all economic environments. FCE maintains a substantial cash balance, committed funding capacity, and access to diverse funding sources. FCE's funding sources consist primarily of unsecured and securitisation debt. FCE issues both short and long-term debt that is held primarily by institutional investors. FCE's balance sheet is inherently liquid due to the short term nature of FCE's net loans and advances to customers and cash compared to its debt.

Securitisation

The Company securitises retail, lease and wholesale receivables through a variety of structures, including amortising and revolving structures, as well as other committed factoring transactions. The objective of FCE's securitisation programmes is solely to provide sources of funding and liquidity. The Company generally retains credit risk in securitisation transactions through its retained interests which provide various forms of credit enhancements. By providing these enhancements the Company has entered into transfers (as described in IAS 39 'Financial Instruments Recognition and Measurement') that do not qualify for de-recognition of the underlying assets. FCE therefore continues to recognise the carrying value of all securitised assets within its balance sheet. FCE risk weights these assets, and not the securitisation positions, to determine its Pillar 1 capital requirements.

Securitisation continues to represent a substantial portion of FCE's funding mix. At 31 December 2014, secured debt was 36% of net loans and advances (2013: 45%). This reduction versus 2013 was in line with FCE's funding strategy to reduce its balance sheet encumbrance. The majority of FCE's encumbered assets relate to securitisation transactions. Please refer to Note 14 'Asset encumbrance' on page 35 for further details.

Liquidity Coverage Ratio (LCR)

In October 2014 the European Commission published a delegated act with regard to the LCR for credit institutions. The legislation will be directly applicable in the UK from 1st October 2015. FCE is monitoring the proposed phasing-in of the LCR and believes it is well positioned to comfortably meet the minimum requirements as they increase over the transition period.

Risk Committee Report

Risk profile

FCE is an automotive captive with a mission to provide stable funding and risk management throughout all economic cycles in a way that enhances the Ford brand for the manufacturer, its dealer franchise network and its customers.

Its business strategy is to be a primarily secured lender through retention of title in the underlying vehicles. The collateral is easy-to value, portable and liquid. FCE has clearly defined rights in relation to counterparty default.

Its funding strategy is to maintain a positive structural liquidity profile (i.e. assets liquidate faster than debt), with a lending portfolio of a short duration.

FCE's lending portfolio is driven by Ford vehicle sales and production so that in a stressed environment, a decline in sales is likely to result in lower capital and liquidity requirements.

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 consistently with these risks.

The 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 50 years of experience in the specialist field of automotive sector lending.

The Risk Appetite Framework clearly defines the amount of risk FCE is willing to seek or accept in its pursuit of its long term objectives and is measured across fifteen risk domains. Tolerance indicators are established within each domain with the Risk Management function responsible for recommending either the tolerance, treatment, transfer or termination of any risk tracking towards an out-of-tolerance position to the appropriate governance committee, be that Executive Committee, Risk Committee of the Board or Board of Directors.

FCE's key metrics include credit loss ratios, liquidity adequacy and other capital ratios.

FCE's risk capacity is considered within its risk appetite statement and supports a five year business planning process, which includes monitoring of capital and liquidity adequacy.

Enterprise Risk Management Framework

FCE seeks to manage appropriately all the risks that arise from its activities. There is a formal structure for monitoring and managing risks across the group, comprising risk appetites approved by the Board, detailed risk management frameworks including policies and procedures, plus independent governance and oversight of risk.

The Enterprise Risk Management Framework which applies to FCE's branches and subsidiaries is underpinned by the Ford Corporate "Creating Value Roadmap" process. The "Creating Value Roadmap" is the operating philosophy and model for how the bank is run to drive its results. FCE continuously monitors the business environment for risks and opportunities that have the potential to either positively or negatively affect the achievement of its business plan. FCE develops and modifies its strategies and reflects these in its planning cycle to provide for continuous improvement.

Key to note regarding the "Creating Value Roadmap" is that it:

- Is driven by FCE's mission;
- Is responsive to the business environment. The business environment encompasses many elements including world events, politics, economics, environment, customers, competitors, technology and labour. A wide variety of data sources are used by FCE including regulator consultation papers from the Basel Committee (BCBS), European Banking Authority, Prudential Regulation Authority and Financial Conduct Authority and daily bulletins from the British Bankers' Association, Ford Motor Company's corporate economics updates, money markets etc;
- Is managed through FCE's embedded reporting processes, which include:
  - a) its Business Plan Review (BPR) process, in which all elements of the business are reviewed through frequently scheduled review meetings with the senior management team seeing the same things at the same time for alignment;
  - b) thematic reviews of more significant matters, from which action plans and strategies are developed to address risks and opportunities. These processes ensure that FCE's senior management and Board are in touch with the business environment, its risks and opportunities and progress in achieving FCE's plan; and;
- Has a formal governance structure, as summarised overleaf.

Risk Committee Report

Risk governance

FCE's governing bodies provide the formal structure used to manage the "Creating Value Roadmap" process. FCE has well established, robust embedded processes for the identification of risks, tracking their evolution and developing actions to mitigate, monitor and control them. Senior management is fully engaged in these processes with regular reporting to the Executive Committee, Risk Committee of the Board and Board of Directors.

FCE's Enterprise Risk Management Framework is based on the principles of the Committee of Sponsoring Organisations (COSO) and the Treadway Commission ERM Framework and is supported by the Three Lines of Defence Framework, as detailed on page 7.

Framework developments introduced during the 2014 financial year include:

- The establishment of a Risk Committee of the Board, chaired by an Independent Non-Executive Director
- The separation of the roles of Chairman and Chief Executive Officer
- Streamlined risk appetite reporting at Board level
- Board further strengthened through appointment of two new independent Non-Executive Directors with complementary skillsets and diversity of background.

BY ORDER OF THE BOARD
John Coffey
Executive Director, Chief Risk Officer
Date: 2nd June 2015

Board declaration on adequacy of risk management

FCE's Directors are satisfied that the Enterprise Risk Management Framework adequately supports the bank's profile and risk strategies in a way that meets the requirements of all key stakeholders.

Quantitative information

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

Quantitative information index

Capital ratios

1 CET1 capital ratio and total capital ratio 17

Own funds

2 Consolidated and solo consolidation 17
3 Components of capital 18
4 Capital instruments 20

Pillar 1 capital requirements: Total

5 Capital requirement split by risk type 21

Pillar 1 Capital requirements: Credit risk

6 Credit risk – CRM and exposure type and class 22
7 Credit risk – Exposures and risk weighted exposures by industry type 26
8 Credit risk – Geographical credit exposures by region ... 27
9 Credit risk – Assets by residual maturity 28
10 Credit risk adjustments – Provision for specific and collective impairment allowances 29
11 Credit risk adjustments – Past due exposures, impaired assets and impairment allowances by counterparty type and geographical region 30
12 Counterparty credit risk – Exposure value and notional amounts 32

Leverage

13 Leverage ratio 34

Asset encumbrance

14 Asset encumbrance 35

Quantitative information

1 CAPITAL RATIOS

Key regulatory ratios	2010	2011	2012	2013	2014
CET1* (Core Tier 1 capital ratio)	21.1%	21.0%	21.5%	18.5%	16.3%
Total capital ratio	23.5%	23.2%	23.8%	20.7%	18.6%

CET1* (Core Tier 1 capital ratio) = CET1 capital / Risk exposure amount
Total capital ratio = Own funds / Risk exposure amount

* CET1 is a measure of capital introduced by CRDIV from 1 January 2014 which replaces Basel II Core Tier 1 capital.

2 OWN FUNDS - CONSOLIDATED AND SOLO CONSOLIDATION

FCE reports on a consolidated and solo consolidated basis to its regulators. The prudential consolidation is equivalent to FCE's accounting consolidation, referred to as 'Group' in its Annual Report and Accounts, while the solo consolidation is similar to 'Company', (as defined on page 2), but includes the Structured Entities (SE).

The 2014 value for own funds is calculated under CRDIV rules, and the 2013 value reflects those rules prior to 1st January 2014, as prescribed under Basel II. The table below shows the walk between the Consolidated and Solo Consolidated own funds for 2014 and 2013.

	Country of incorporation	Own funds 2014 £ mil	Own funds 2013 £ mil
SOLO CONSOLIDATED BASIS	Various	**£ 1,920**	**£ 1,768**
FCE Credit s.r.o	Czech Republic	6	12
FCE Credit Hungary Zrt	Hungary	2	6
FCE Services Kft	Hungary	-	-
FCE Bank Polska S.A	Poland	16	25
FCE Credit Poland S.A	Poland	15	18
Saracen Holdco Ab	Sweden	40	6
Ford Credit (Switzerland) GmbH	Switzerland	4	84
Globaldrive (Switzerland) GmbH	Switzerland	-	-
Subsidiaries excluded from solo consolidation		**£ 83**	**£ 151**
CONSOLIDATED BASIS		**£ 2,003**	**£ 1,919**

Quantitative information

3 OWN FUNDS - COMPONENTS OF CAPITAL

For the year ended 31 December	Group 2014 £ mil	Group 2013 £ mil
Tier 1 capital		
Common Equity Tier 1 capital / Basel II: Core Tier 1		
Capital Instruments eligible as CET 1 capital		
Share capital	£ 614	£ 614
Share premium	352	352
Retained earnings		-
Previous years retained earnings	541	395
Profit or loss eligible:		
Profit or loss	147	152
(-) Part of interim or year-end profit not eligible	-	-
Translation differences and other reserves	137	202
Adjustments to CET1 due to prudential filters		
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	-	-
Deductions from CET1:		
Goodwill	-	-
Other intangible assets	(10)	-
Deferred tax assets that do not arise from temporary differences net of associated tax liabilities	(25)	-
Total Common Equity Tier 1 Capital (CET1) / *Basel II: Core Tier 1*	**£ 1,756**	**£ 1,715**
Additional Tier 1 capital	-	-
Memo: Basel II Prudential filters from T1 capital	-	6
Memo: Basel II Deductions from T1 capital	-	(10)
Total Tier 1 capital (T1)	**£ 1,756**	**£ 1,711**
Tier 2 capital		
Capital instruments and subordinated loans eligible as T2 capital	214	211
Collective impairment allowance	33	40
Total Tier 2 capital (T2)	**£ 247**	**£ 251**
Memo: Basel II deductions from the totals of T1 & T2 capital	-	(43)
Total own funds / Total capital	**£ 2,003**	**£ 1,919**
Ratios		
CET1 / T1 capital ratio (%)	16.3%	18.5%
Total capital ratio (%)	18.6%	20.7%

NOTE: No deductions from CET1 were made in relation to significant investments, or deferred tax assets that arise from temporary differences, as FCE did not exceed the capital threshold set out under Article 48 of the CRR

FCE's capital as at 31 December 2014 has been calculated in accordance with the CRDIV regulatory rules which came into force on 1st January 2014. The table above reflects a fully loaded own funds calculation.

As required by the CRR FCE excludes its full year profits from regulatory submissions until they have been formally confirmed by its auditors. The table above shows their full value at 31 December 2014 of £147 million (2013: £152 million).

Quantitative information

3 OWN FUNDS - COMPONENTS OF CAPITAL continued

The main differences which impact FCE between the current CRDIV rules, applicable for the 2014 calculations, and the previous Basel II regulations from which the 2013 values are derived (highlighted in italics), are:

- Core Tier 1 capital has been renamed under CRDIV as Common Equity Tier 1 (CET1) Capital.
- The prudential filter relating to fair value under CRDIV is restricted to adjusting gains & losses arising from institution's own credit risk related to derivative liabilities. The prudential filter for Basel II had a wider scope.
- Deductions from Tier 1 capital under CRDIV are now made directly from CET1 rather than from Tier 1 under Basel II.
- Certain items that were previously deducted from total capital under Basel II are now only deductions under CRDIV if they exceed a threshold percentage of capital.
- Deferred tax assets formed part of a bank's Pillar 1 capital requirements under Basel II but under CRDIV they are split between those that do and do not arise from temporary differences, with the former only a deduction if they exceed a threshold percentage of capital, and the latter always deducted from CET1 Capital.

FCE's Tier 1 capital is wholly made up of CET1 capital. This consists of fully paid up share capital and share premium. Tier 1 capital has increased in 2014 to £1,756 million (2013: £1,711 million) primarily resulting from an increase in previous years' retained earnings. This is partially offset by translation differences and deferred tax asset deductions consistent with the CRDIV approach (for more details, see the 'Statements of changes in equity' and Note 31 'Ordinary shares and share premium' on pages 41 and 84 respectively of FCE's 2014 Annual Report and Accounts).

Tier 2 comprises subordinated loans and collective impairment allowances relating to loans and advances to customers and operating leases. Tier 2 capital has decreased slightly in 2014 to £247 million (2013: £251 million) primarily due to a decrease in the collective impairment allowances to £33 million (2013: £40 million), partially offset by exchange rate movements on the underlying currencies of the subordinated loans.

Quantitative information

4 CAPITAL INSTRUMENTS

The table below details the main features of the capital instruments included in FCE's own funds.

As at 31 December 2014	Capital Instruments: Main features				
	Tier 1	Tier 2			
Main features					
Issuer	FCE Bank Plc	Ford Motor Credit Company LLC	Ford Motor Credit Company LLC	Ford Motor Credit Company LLC	Ford Credit International
Unique Identifier (eg. CUSP, ISIN or Bloomberg identifier for private placement)	N/A	N/A	N/A	N/A	N/A
Governing law(s) of the instrument	England and Wales	England and Wales	England and Wales	England and Wales	England and Wales
Regulatory treatment					
Transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2	Tier 2	Tier 2
Post-transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2	Tier 2	Tier 2
Eligible at solo/(sub-)consolidated / solo&(sub-)consolidated	Sub-Consolidated & Consolidated	Sub-Consolidated & Consolidated	Sub-Consolidated & Consolidated	Sub-Consolidated & Consolidated	Sub-Consolidated & Consolidated
Instrument type (types to be specified by each jurisdiction)	Ordinary Shares	Perpetual Subordinated Debt	Perpetual Subordinated Debt	Perpetual Subordinated Debt	Perpetual Subordinated Debt
Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	£966m (includes £352m share premium)	£36m	£28m	£10m	£140m
Nominal amount of instrument	£1 per share	€46m / £36m	€36m / £28m	€13m / £10m	$219m / £140m
Issue price	On 11th October 1963 10,000 shares were issued for £10,000. Between 1980 and 2003 further shares were issued at a variety of prices resulting in the current level shown above	100%	100%	100%	100%
Redemption price	N/A	100%	100%	100%	100%
Accounting classification	Shareholder's Equity	Liability	Liability	Liability	Liability
Original date of issuance	11th October 1963	10th June 1993	1st December 1994	25th June 1996	6th October 2000
Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
Original maturity date	N/A	No maturity	No maturity	No maturity	No maturity
Issuer call subject to prior supervisory approval	No	No	No	No	No
Optional call date, contingent call dates and redemption amount	No	No	No	No	No
Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A
Coupons / dividends					
Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating	Floating
Coupon rate and any related index	N/A	3 m Euribor + 1.42%	3 m Euribor + 1.42%	3 m Euribor + 1.42%	3 m USD Libor + 1.42%
Existence of a dividend stopper	N/A	No	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
Existence of step up or other incentive to redeem	No	No	No	No	No
Noncumulative or cumulative	Noncumulative	Cumulative	Cumulative	Cumulative	Cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A
If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A
If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
Write-down features	No	No	No	No	No
If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A
If write-down, full or partial	N/A	N/A	N/A	N/A	N/A
If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A
If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A
Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	Subordinated debt	Unsecured debt	Unsecured debt	Unsecured debt	Unsecured debt
Non-compliant transitioned features	No	No	No	No	No
If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

Quantitative information

5 PILLAR 1 CAPITAL REQUIREMENT: TOTAL - SPLIT BY RISK TYPE

As at 31 December 2014

Risk type	Approach		Risk exposure amount £ mil		Capital requirement £ mil
Credit risk (excl. Counterparty credit risk)	Standardised	£	9,580	£	766
Counterparty credit risk	Mark to Market		161		13
Total credit risk		**£**	**9,741**	**£**	**779**
Credit valuation adjustment (CVA)	Standardised		158		13
Market risk (Foreign exchange risk)	Standardised		182		15
Operational risk	Standardised		694		55
Total all risk types		**£**	**10,775**	**£**	**862**

As at 31 December 2013

Risk type	Approach		Risk exposure amount £ mil		Capital requirement £ mil
Credit risk (excl. Counterparty credit risk)	Simplified	£	8,389	£	671
Counterparty credit risk	Mark to Market		111		9
Total credit risk		**£**	**8,500**	**£**	**680**
Market risk (Foreign exchange risk)	Standardised		60		5
Operational risk	Standardised		687		55
Total all risk types		**£**	**9,247**	**£**	**740**

The tables above show the Pillar 1 capital requirements and risk exposure amounts for 2014 and 2013 based on a Basel III and Basel II requirement respectively.

'Risk exposure amount' for credit risk and counterparty credit risk is the risk weighted exposure value.

'Capital requirement' for credit risk and counterparty credit risk is 8% of the risk weighted exposure value.

For the remaining risk types, the capital requirement value is calculated directly by the method prescribed in the CRR.

Quantitative information

6 CREDIT RISK – CREDIT RISK MITIGATION AND EXPOSURE TYPE AND CLASS

6a) Reconciliation of statement of financial position - assets

Group For the year ended 31 December 2014 ASSETS	Statement of financial position £ mil	Own fund elements Deductions from CET1 £ mil	Own fund elements Tier 2 items £ mil	Credit risk mitigation (CRM) £ mil	Subject to credit risk £ mil
Cash and cash equivalents	£ 1,628	£ -	£ -	£ -	£ 1,628
Marketable securities	163				163
Other assets	288	-	-	(8)	280
Loans and advances to customers	10,548	-	33	(344)	10,237
Property and equipment	207	-	-	-	207
Income taxes receivable	93	-	-	-	93
Deferred tax assets	66	(25)	-	-	41
Goodwill and other intangible assets	10	(10)	-	-	-
Investment in a joint venture	43	-	-	-	43
Investment in other entities	3	-	-	-	3
TOTAL ASSETS	**£ 13,049**	**£ (35)**	**£ 33**	**£ (352)**	**£ 12,695**

The table above provides the reconciliation of assets in FCE's 2014 Annual Report and Accounts to assets subject to credit risk prior to risk weighting. FCE's primary form of credit risk mitigation (CRM) is the use of loans from parent entities to mitigate the exposures to Ford Motor Company. There are also netting agreements between FCE and FMC in certain branch locations, as well as bank guarantees and cash collateral deposits which are used to reduce dealer exposures.

Under the Standardised approach, defined exposure classes are risk weighted by first defining the relevant Credit Quality Step (CQS) of the counterparty. Where the counterparty is known to be rated by an External Credit Assessment Institution (ECAI), FCE uses the rating of Standard & Poors (S&P) to determine which CQS to apply and then calculates the subsequent risk weighting**.** The value of these exposures can be seen in Table 6c on page 24.

The risk weightings for all other exposure classes are calculated without the need to apply the credit quality step. These are shown in the column headed 'Uniform regulatory treatment' in Table 6c.

Quantitative information

6 CREDIT RISK – CREDIT RISK MITIGATION AND EXPOSURE TYPE AND CLASS continued

6b) Average exposure values pre and post CRM with associated risk weighted assets (RWA) and Pillar 1 capital requirements

As at 31 December 2014	Exposure value pre-CRM (with substitution effects)		Exposure value post-CRM and credit conversion factors		Capital requirements			
					Year end		Average	
Exposure class	Year end	Average	Year end	Average	RWA	Capital required	RWA	Capital required
On balance sheet exposures	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
Corporates	£ 4,850	£ 4,960	£ 4,848	£ 4,957	£ 4,830	£ 386	£ 4,953	£ 396
Retail	5,906	5,715	5,906	5,715	4,330	346	4,194	336
of which: SME	555	517	555	517	317	25	296	24
Public sector entities	5	5	5	5	1	-	1	-
Central goverments or central banks	1,338	1,034	1,338	1,034	-	-	-	-
Institutions	463	569	465	571	94	8	116	9
Exposures in default	44	30	44	30	66	5	45	4
Other items	5	5	5	5	5	-	4	-
Items below threshold for capital deduction								
Central goverments or central banks (DTA)	41	38	41	38	103	8	96	8
Institutions: (Investments)	43	43	43	43	107	9	107	9
Total on balance sheet	**£ 12,695**	**£ 12,399**	**£ 12,695**	**£ 12,398**	**£ 9,536**	**£ 762**	**£ 9,516**	**£ 762**
Off balance sheet exposures								
Corporates	£ 1,717	£ 1,685	£ 43	£ 46	£ 44	£ 4	£ 46	£ 4
Retail	391	420	-	-	-	-	-	-
Central governments and central banks	-	-	-	-	-	-	-	-
Total off balance sheet	**£ 2,108**	**£ 2,105**	**£ 43**	**£ 46**	**£ 44**	**£ 4**	**£ 46**	**£ 4**
Total credit risk (excl. counterparty credit risk)	**£ 14,803**	**£ 14,504**	**£ 12,738**	**£ 12,444**	**£ 9,580**	**£ 766**	**£ 9,562**	**£ 766**
Derivatives								
Corporates	£ 8	£ 10	£ 8	£ 10	£ 8	£ 1	£ 10	£ 1
Institutions	312	264	312	264	153	12	129	10
Total counterparty credit risk	**£ 320**	**£ 274**	**£ 320**	**£ 274**	**£ 161**	**£ 13**	**£ 139**	**£ 11**
Total credit risk	**£ 15,123**	**£ 14,778**	**£ 13,058**	**£ 12,718**	**£ 9,741**	**£ 779**	**£ 9,701**	**£ 777**

The table above details both the total amount of exposures as at 31 December 2014 and the average during the year, before and after the effects of credit risk mitigation (CRM) with substitution effects, broken down by exposure type and class. For each of these classes of exposure the Pillar 1 capital requirement is also shown.

'Corporates' relates to exposures to corporates where no credit assessment is available.

'Public sector entities' relates to entities where no credit assessment is available so have been assigned to the credit quality step (CQS) of the central government in which they are incorporated.

'Central governments or central banks' relates to exposures to member states denominated and funded in the domestic currency of any member state and are therefore risk weighted at 0%.

'Institutions' relates to exposures of varying residual maturities. Those on balance sheet have a maturity of three months or less, while the derivatives have a maturity of greater than three months.

'Items below threshold for capital deduction' relates to the items 'Deferred tax assets that arise from temporary differences' and 'Significant investments' which fall below the threshold for deduction from capital and are therefore risk weighted at 250%.

'Averages' are calculated by taking the values reported as at each quarter end during 2014 and dividing them by four.

'Capital required' is 8% of the risk weighted exposure amounts for each exposure class.

Quantitative information

6 CREDIT RISK – CREDIT RISK MITIGATION AND EXPOSURE TYPE AND CLASS continued

6c) Exposure value post credit risk mitigation

As at 31 December 2014	Exposure value - Post CRM (with substitution effects) & after credit conversion factors							
Exposure class	Credit quality step 1	Credit quality step 2	Credit quality step 3	Credit quality step 4	Credit quality step 5	Credit quality step 6	Uniform regulatory treatment	Total
On balance sheet exposures	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
Corporates	£ -	£ -	£ -	£ -	£ -	£ -	£ 4,848	£ **4,848**
Retail	-	-	-	-	-	-	5,906	**5,906**
of which: SME	-	-	-	-	-	-	555	**555**
Public sector entities	5	-	-	-	-	-	-	**5**
Central goverments or central banks	-	-	-	-	-	-	1,338	**1,338**
Insitutions	4	391	69	1	-	-	-	**465**
Exposures in default	-	-	-	-	-	-	44	**44**
Other items	-	-	-	-	-	-	5	**5**
Items below threshold for capital deduction								
Central governments or central banks (DTA)	-	-	-	-	-	-	41	**41**
Institutions: (Investments)	-	-	-	-	-	-	43	**43**
Total on balance sheet	**£ 9**	**£ 391**	**£ 69**	**£ 1**	**£ -**	**£ -**	**£ 12,225**	**£ 12,695**
Off balance sheet exposures								
Corporates	£ -	£ -	£ -	£ -	£ -	£ -	£ 43	£ **43**
Retail	-	-	-	-	-	-	0	**0**
Central governments and central banks	-	-	-	-	-	-	0	**0**
Total off balance sheet	**£ -**	**£ -**	**£ -**	**£ -**	**£ -**	**£ -**	**£ 43**	**£ 43**
Total credit risk (excl. counterparty credit risk)	**£ 9**	**£ 391**	**£ 69**	**£ 1**	**£ -**	**£ -**	**£ 12,268**	**£ 12,738**
Derivatives								
Corporates	£ -	£ -	£ -	£ -	£ -	£ -	£ 8	£ **8**
Institutions	10	246	56	-	-	-	-	**312**
Total counterparty credit risk	**£ 10**	**£ 246**	**£ 56**	**£ -**	**£ -**	**£ -**	**£ 8**	**£ 320**
Total credit risk	**£ 19**	**£ 637**	**£ 125**	**£ 1**	**£ -**	**£ -**	**£ 12,276**	**£ 13,058**

The table above shows the amount of exposures after credit risk mitigation (CRM). The exposure values before CRM and after CRM & credit conversion factors, are similar for on balance sheet assets. Table 6b on the previous page shows the comparison.

Quantitative information

6 CREDIT RISK – CREDIT RISK MITIGATION AND EXPOSURE TYPE AND CLASS continued

6d) 2013 Average exposure values pre and post CRM with associated risk weighted assets (RWA) and Pillar 1 capital requirements

As at 31 December 2013 Exposure class	Risk Weighting	Exposure before CRM (on-balance sheet netting)	Original exposure before conversion factors £ mil	Credit Risk Mitigation (CRM) with substitution effects £ mil	Exposure value after CRM & conversion factors £ mil	RWA £ mil	Capital requirement £ mil	Average capital requirement £ mil
On balance sheet exposures								
Corporates	100%	£ 4,339	£ 4,081	£ -	£ 4,081	£ 4,081	£ **326**	£ **358**
Corporates	0%	-	-	-	-	-	**-**	**-**
Retail	75%	5,437	5,420	-	5,420	4,071	**326**	**301**
Public sector entities	100%	3	3	-	3	3	**-**	**1**
Central goverments or central banks	0%	1,722	1,722	-	1,722	-	-	-
Insitutions: Residual maturity more than 3 months	50%	3	3	-	3	2	**-**	**-**
Insitutions: Residual maturity less than 3 months	20%	681	681	-	681	136	**11**	**12**
Loans & advances more than 90 days past due	150%	25	25	-	25	37	**3**	**4**
Other items	100%	4	4	-	4	4	**-**	**1**
Other items	20%	3	3	-	3	1	**-**	**-**
Total on balance sheet		£ **12,217**	£ **11,942**	£ **-**	£ **11,942**	£ **8,335**	£ **666**	£ **677**
Off balance sheet exposures								
Corporates	100%	£ 61	£ 61	£ (1)	£ 60	£ 60	£ **5**	£ **4**
Corporates	0%	**-**	-	-	-	-	**-**	**-**
Retail	75%	-	-	-	-	-	**-**	**-**
Central governments and central banks	0%	-	-	-	-	-	**-**	**-**
Total off balance sheet		£ **61**	£ **61**	£ **(1)**	£ **60**	£ **60**	£ **5**	£ **4**
Total credit risk (excl. counterparty credit risk)		£ **12,278**	£ **12,003**	£ **(1)**	£ **12,002**	£ **8,395**	£ **671**	£ **681**
Derivatives								
Corporates	100%	£ 7	£ 7	£ -	£ 7	£ 7	£ **1**	£ **-**
Insitutions: Residual maturity more than 3 months	50%	207	207	-	207	104	**8**	**7**
Total counterparty credit risk		£ **214**	£ **214**	£ **-**	£ **214**	£ **111**	£ **9**	£ **7**
Total credit risk		£ **12,492**	£ **12,217**	£ **(1)**	£ **12,216**	£ **8,506**	£ **680**	£ **688**

The table above shows the total amount of exposures as at 31 December 2013 according to the simplified approach. This approach ceased to exist with CRDIV and therefore FCE adopted the standardised approach for assessing the Pillar 1 capital requirements for credit risk using standard industry-wide risk weightings based on the classification of asset and counterparty types.

'Average capital requirement' has been calculated by taking the values at the beginning of the year and at the end of each six month period and dividing by three.

'Capital requirement' is 8% of the risk weighted exposure amounts for each exposure class.

Quantitative information

7 CREDIT RISK – EXPOSURES AND RISK WEIGHTED EXPOSURES BY INDUSTRY TYPE

7a) Exposure values by industry type

As at 31 December 2014	Exposure value (after CRM & after credit conversion factors)							
Exposure class	Vehicle dealers £ mil	Other corporates (incl. FMC owned) £ mil	SMEs £ mil	Private customers £ mil	Credit institutions £ mil	Central governments or central banks £ mil	Other £ mil	Total £ mil
Corporate	£ 3,881	£ 1,018	£ -	£ -	£ -	£ -	£ -	£ 4,899
Retail	-	-	555	5,351	-	-	-	5,906
Public sector entities	-	-	-	-	-	-	5	5
Central governments or central banks	-	-	-	-	-	1,379	-	1,379
Institutions	-	-	-	-	820	-	-	820
Exposures in default	1	-	-	43	-	-	-	44
Other items	-	-	-	-	-	-	5	5
Total credit risk	**£ 3,882**	**£ 1,018**	**£ 555**	**£ 5,394**	**£ 820**	**£ 1,379**	**£ 10**	**13,058**

7b) Risk weighted exposures by industry type

As at 31 December 2014	Risk-weighted exposure value (post SME supporting factor)							
Exposure class	Vehicle dealers £ mil	Other corporates (incl. FMC owned) £ mil	SMEs £ mil	Private customers £ mil	Credit institutions £ mil	Central governments or central banks £ mil	Other £ mil	Total £ mil
Corporate	£ 3,863	£ 1,019	£ -	£ -	£ -	£ -	£ -	£ 4,882
Retail	-	-	317	4,013	-	-	-	4,330
Public sector entities	-	-	-	-	-	-	1	1
Central governments or central banks	-	-	-	-	-	103	-	103
Institutions	-	-	-	-	354	-	-	354
Exposures in default	1	-	-	65	-	-	-	66
Other items	-	-	-	-	-	-	5	5
Total credit risk	**£ 3,864**	**£ 1,019**	**£ 317**	**£ 4,078**	**£ 354**	**£ 103**	**£ 6**	**9,741**

The tables above reflect FCE's business model of supporting Ford sales by providing financing to Ford's retail customers and Ford dealers. The exposures to central governments & central banks and to credit institutions primarily reflects where FCE's cash is placed.

This split by industry type is consistent with the distribution of FCE's exposures amongst its counterparties in the prior year.

Quantitative information

8 CREDIT RISK – GEOGRAPHICAL CREDIT EXPOSURES BY REGION

8a) Exposure values by country of residence of the obligor

As at 31 December 2014	Exposure value (after CRM & after credit conversion factors)						
Exposure class	UK £ mil	Germany £ mil	Italy £ mil	Spain £ mil	France £ mil	Other £ mil	Total FCE £ mil
Corporate	£ 1,323	£ 1,427	£ 328	£ 250	£ 478	£ 1,093	£ **4,899**
Retail	2,568	1,784	502	214	234	604	**5,906**
Public sector entities	-	-	1	-	4	-	**5**
Central governments or central banks	608	698	28	29	6	10	**1,379**
Institutions	315	130	11	4	81	279	**820**
Exposures in default	5	12	12	9	1	5	**44**
Other items	2	1	-	1	-	1	**5**
Total credit risk	**£ 4,821**	**£ 4,052**	**£ 882**	**£ 507**	**£ 804**	**£ 1,992**	**13,058**

8b) Risk weighted exposure value by country of residence of the obligor

As at 31 December 2014	Risk-weighted exposure value (post SME supporting factor)						
Exposure class	UK £ mil	Germany £ mil	Italy £ mil	Spain £ mil	France £ mil	Other £ mil	Total FCE £ mil
Corporate	£ 1,305	£ 1,428	£ 328	£ 250	£ 478	£ 1,093	£ **4,882**
Retail	1,908	1,276	371	160	174	441	**4,330**
Public sector entities	-	-	-	-	1	-	**1**
Central governments or central banks	103	-	-	-	-	-	**103**
Institutions	154	26	2	2	16	154	**354**
Exposures in default	8	17	18	14	2	7	**66**
Other items	2	1	-	1	-	1	**5**
Total credit risk	**£ 3,480**	**£ 2,748**	**£ 719**	**£ 427**	**£ 671**	**£ 1,696**	**9,741**

In line with the focus of management review the performance of the five major geographical markets, (UK, Germany, Italy, Spain and France), are separately reported above.

The remainder of FCE's exposures are reported in the column 'Other' in the tables.

Quantitative information

9 CREDIT RISK – ASSETS BY RESIDUAL MATURITY

The tables within this note analyse gross undiscounted contractual cash flows by FCE asset class with the equivalent exposure classes shown in brackets.

As at 31 December 2014		0-3 Months £ mil	4-12 Months £ mil	1-5 Years £ mil	5+ Years £ mil	Total £ mil
Assets	**Note**					
Cash and cash equivalents (institutions, central banks)	A	£ 1,628	£ -	£ -	£ -	£ 1,628
Derivative financial instruments (institutions, corporates)	C	26	49	86	6	167
- Retail/Lease (retail)	B	539	1,793	4,274	18	6,624
- Wholesale (corporates)	B	506	4,051	32	-	4,589
Loans and advances to customers	B	1,045	5,844	4,306	18	11,213
Operating leases (corporates)	B	77	125	-	-	202
Other assets (corporates, central governments, other items)	D	202	-	-	69	271
Total asset inflows		**£ 2,978**	**£ 6,018**	**£ 4,392**	**£ 93**	**£ 13,481**

As at 31 December 2013		0-3 Months £ mil	4-12 Months £ mil	1-5 Years £ mil	5+ Years £ mil	Total £ mil
Assets	**Note**					
Cash and cash equivalents (institutions, central banks)	A	£ 2,221	£ -	£ -	£ -	£ 2,221
Derivative financial instruments (institutions, corporates)	C	21	14	37	-	72
- Retail/Lease (retail)	B	543	1,733	3,842	19	6,137
- Wholesale (corporates)	B	490	3,388	38	-	3,916
Loans and advances to customers	B	1,033	5,121	3,880	19	10,053
Operating leases (corporates)	B	55	96	-	-	151
Other assets (corporates, central governments, other items)	D	129	-	-	79	208
Total asset inflows		**£ 3,459**	**£ 5,231**	**£ 3,917**	**£ 98**	**£ 12,705**

Note	Cash flows from assets and liabilities are allocated to the appropriate time bands as follows:
A	Based on availability of 'cash and cash equivalents' as follows: (Please refer to Note 11 in the 2014 Annual Report and Accounts) • 'Cash and cash equivalents' classified by contractual maturity date
B	Customer payments are assumed to occur on the latest contractual date and no behavioural adjustments are made for customer early settlements: • Retail finance and lease contracts and operating lease vehicles generally require customers to pay equal monthly instalments over the life of the contract. • Wholesale financing for new and used vehicles held in dealers inventory - A bullet repayment schedule is utilised, as the principal is typically repaid in one lump sum at the end of the financing period.
C	Classified based on the earliest possible contractual due date.
D	Classified according to the remaining period to maturity, including 'Restricted Cash' which are assumed to be amounts typically not available for use in day to day operations classified based on the latest possible repayment date.

Quantitative information

10 CREDIT RISK ADJUSTMENTS – PROVISION FOR SPECIFIC AND COLLECTIVE IMPAIRMENT ALLOWANCES

	2014			2013		
Reconciliation of movements	**Specific impairment allowance £ mil**	**Collective impairment allowance £ mil**	**Total £ mil**	**Specific impairment allowance £ mil**	**Collective impairment allowance £ mil**	**Total £ mil**
Opening balance	**£ 2**	**£ 40**	**£ 42**	**£ 1**	**£ 42**	**£ 43**
Additions / (reductions) to reserve	38	(5)	**33**	48	(4)	44
Use of reserve	(40)	-	**(40)**	(47)	-	(47)
Other	-	-	**-**	-	1	1
Translation adjustment	-	(2)	**(2)**	-	1	1
Closing balance	**£ -**	**£ 33**	**£ 33**	**£ 2**	**£ 40**	**£ 42**
Income statement						
Charges - (Increase) / decrease	£ (38)	**£** 5	**£ (33)**	£ (48)	£ 4	**£ (44)**
Recoveries	24	-	**24**	26	-	**26**
Total charged to income statement	**£ (15)**	**£ 5**	**£ (9)**	**£ (23)**	**£ 4**	**£ (18)**

The table above shows the movement during 2014 and 2013 in the provisions for specific and collective impairments allowances, as well as any entries made directly to the income statement in relation to impairments and recoveries for both years.

The collective impairment allowance as detailed forms part of FCE's own funds as disclosed in Note 3 'Components of capital' on pages 18 and 19.

Quantitative information

11 CREDIT RISK ADJUSTMENTS - PAST DUE EXPOSURES, IMPAIRED ASSETS AND IMPAIRMENT ALLOWANCES BY COUNTERPARTY TYPE AND GEOGRAPHICAL REGION

Past due exposures

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.

Impairment

A provision for impairment losses is made against loans and advances to cover impairment which has been incurred and not separately identified, but which is 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. Following the impairment of a retail financing contract the carrying value of the loan is reduced to reflect the average vehicle recovery value.

Following the impairment of a wholesale contract 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 value of loans and advances considered to be impaired at the reporting date is £65 million (2013: £33 million).The interest income on impaired financial receivables is £1 million (2013: £1 million). Please see Note 38 'Credit risk' in FCE's 2014 Annual Report and Accounts for further details.

The table below shows the amount of impaired as at 31 December 2014 and 2013 broken down by geographical region based on the location of the reporting entity.

As at 31 December 2014	UK £ mil	Germany £ mil	Italy £ mil	Spain £ mil	France £ mil	Other £ mil	Total FCE £ mil
Impaired assets	£ 2	£ 11	£ 22	£ 11	£ 13	£ 6	£ **65**
Past due exposures							
30 days or less	14	27	19	2	2	22	**86**
30 - 60 days	7	7	5	1	-	6	**26**
60 - 90 days	2	2	2	-	-	2	**8**
90 - 180 days	1	1	1	-	-	1	**4**
Total past due	£ **24**	£ **37**	£ **27**	£ **3**	£ **2**	£ **31**	£ **124**

As at 31 December 2013	UK £ mil	Germany £ mil	Italy £ mil	Spain £ mil	France £ mil	Other £ mil	Total FCE £ mil
Impaired assets	£ 1	£ -	£ 2	£ 4	£ 25	£ 1	£ **33**
Past due exposures							
30 days or less	13	31	21	4	2	27	**98**
30 - 60 days	7	9	5	1	-	7	**29**
60 - 90 days	2	3	2	1	-	1	**9**
90 - 180 days	1	1	2	-	-	1	**5**
Total past due	£ **23**	£ **44**	£ **30**	£ **6**	£ **2**	£ **36**	£ **141**

Collateral

The carrying value of loans and advances to customers best represents our maximum exposure to credit risk without taking into account any collateral or other credit risk mitigations.

The maximum credit risk is reduced through the collateral held which for the majority of retail, leasing and wholesale financing plans, comprises title retention plans or a similar security interest in the underlying vehicle.

As at 31 December 2014, the estimated value of collateral as a percentage of the outstanding balance of net loans and advances is 69% in relation to retail and lease and 87% for wholesale.

Quantitative information

11 CREDIT RISK ADJUSTMENTS: - PAST DUE EXPOSURES, IMPAIRED ASSETS AND IMPAIRMENT ALLOWANCES BY COUNTERPARTY TYPE AND GEOGRAPHICAL REGION continued

Summary of impaired and past due exposures by counterparty type

As at 31 December 2014	Past due but not impaired													
		< = 30 days		> 30 days < = 180 days		Impaired assets		Specific impairment allowances		Additions/ (reductions) to specific impairment allowances		Collective impairment allowances		Additions/ (reductions) to collective impairment allowances
Counterparty type		£ mil		£ mil		£ mil		£ mil		£ mil		£ mil		£ mil
Non-financial corporations	£	7	£	3	£	56	£	-	£	2	£	4	£	-
Households		79		35		9		-		36		29		(5)
Total	**£**	**86**	**£**	**38**	**£**	**65**	**£**	**-**	**£**	**38**	**£**	**33**	**£**	**(5)**

As at 31 December 2013	Past due but not impaired													
		< = 30 days		> 30 days < = 180 days		Impaired assets		Specific impairment allowances		Additions/ (reductions) to specific impairment allowances		Collective impairment allowances		Additions/ (reductions) to collective impairment allowances
Counterparty type		£ mil		£ mil		£ mil		£ mil		£ mil		£ mil		£ mil
Non-financial corporations	£	7	£	3	£	17	£	2	£	10	£	4	£	-
Households		91		40		16		-		38		36		(4)
Total	**£**	**98**	**£**	**43**	**£**	**33**	**£**	**2**	**£**	**48**	**£**	**40**	**£**	**(4)**

The tables above show the amount of impaired and past due exposures as at 31 December 2014 and 2013 broken down by counterparty type.

As at 31 December 2014 there were no past due exposures over 120 days that were not impaired.

'Counterparty type' relates to the counterparty sector classifications used in FINREP and is based on the nature of the intermediate counterparty.

Quantitative information

12 COUNTERPARTY CREDIT RISK - EXPOSURE VALUES AND NOTIONAL AMOUNTS

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. (Please see page 9 and 10 in the Risk section for further details on FCE's use of derivatives which are designed to mitigate risk and are not used for speculative purposes).

The 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 manage 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 risk that a counterparty may default on a derivative contract is termed counterparty credit risk. FCE uses the Mark to Market Method (MTM, also known as the Current Exposure Method (CEM)), to calculate this, which is the sum of the current market value of an instrument, (the replacement cost) plus the potential future exposure add-on as defined in the CRR. The sum of these equates to the 'Exposure at Default' (EAD) value.

The following tables break out the replacement cost, the potential future exposure value and the underlying notional amount, by type of derivative financial instrument for 2014 and 2013 respectively.

As at 31 December 2014		**Derivative financial instrument**				
Replacement cost	**Risk weighting**	**Interest rate swaps £ mil**	**Cross currency swaps £ mil**	**Foreign exchange forwards £ mil**	**Total £ mil**	**Risk weighted Total £ mil**
Institutions: Rated by ECAI	20%	£ 1	£ -	£ -	£ **1**	£ **-**
Institutions: Rated by ECAI	50%	143	16	-	**159**	**80**
Corporates	100%	-	-	5	**5**	**5**
Potential future exposure add-on						
Institutions: Rated by ECAI	20%					
- 1 year or less		£ -	£ -	£ -	£ -	£ **-**
- Over 1 year, not exceeding 5 years		1	-	-	**1**	**-**
- Over 5 years		8	-	-	**8**	**2**
Institutions: Rated by ECAI	50%					
- 1 year or less		£ -	£ -	£ -	£ -	£ **-**
- Over 1 year, not exceeding 5 years		28	34	-	**62**	**31**
- Over 5 years		73	8	-	**81**	**40**
Corporates	100%					
- 1 year or less		£ -	£ -	£ 3	£ **3**	£ **3**
- Over 1 year, not exceeding 5 years						
- Over 5 years						
Exposure value / Exposure at Default (EAD)		**£ 254**	**£ 58**	**£ 8**	**£ 320**	**£ 161**
Notional amount		**£ 13,272**	**£ 778**	**£ 308**	**£ 14,358**	

'Replacement cost' relates to the current market value of the contracts.

'Corporates' relates to derivative transactions with a Ford-owned counterparty which provides treasury services to the Ford group.

'Risk weighting' has been determined by the credit quality step of the counterparty credit institution.

'Potential future exposure add-on' is determined by values in the CRR based on the type of derivative instrument and its residual maturity.

Quantitative information

12 COUNTERPARTY CREDIT RISK: EXPOSURE VALUES AND NOTIONAL AMOUNTS continued

As at 31 December 2013	Risk weighting	Derivative financial instrument Interest rate swaps £ mil	Cross currency swaps £ mil	Foreign exchange forwards £ mil	Total £ mil	Risk weighted Total £ mil
Replacement cost						
Institutions	50%	£ 71	£ -	£ -	£ **71**	£ **36**
Corporates	100%	-	-	-	**-**	**-**
Potential future exposure add-on						
Institutions	50%					
- 1 year or less		£ -	£ 3	£ 1	£ **4**	£ **2**
- Over 1 year, not exceeding 5 years		26	25	-	**51**	**26**
- Over 5 years		81	-	-	**81**	**40**
Corporates	100%					
- 1 year or less		£ -	£ -	£ 7	£ **7**	£ **7**
- Over 1 year, not exceeding 5 years		-	-	-	-	**-**
- Over 5 years		-	-	-	-	**-**
Exposure value / Exposure at Default (EAD)		**£ 178**	**£ 28**	**£ 8**	**£ 214**	**£ 111**
Notional amount		**£ 11,899**	**£ 754**	**£ 727**	**£ 13,380**	

'Potential future exposure add-on' is determined by the values in Chapter 13 of BIPRU based on the type of derivative instrument and its residual maturity.

Quantitative information

13 LEVERAGE RATIO

Group		
As at 31 December 2014	**Statement of financial position 2014 £ mil**	**Leverage 2014 £ mil**
Leverage exposure		
IFRS derivative financial instruments	£ 163	£ 163
Market value adjustment to the financial instruments		2
Potential future exposure on derivatives		155
Total derivatives		**£ 320**
Other assets and adjustments		
Loans and advances and other assets	£ 12,886	£ 12,886
Undrawn commitments		271
Regulatory deductions and other adjustments		126
Total other assets and adjustments		**£ 13,283**
Total assets / Exposure measure - Delegated act definition	£ **13,049**	**£ 13,603**
Capital measure		
Tier 1 capital (fully loaded)		**£ 1,756**
Leverage ratio		**12.9%**

CRDIV introduced a new measure, the leverage ratio, as a monitoring tool and all banks have been required to report it to the PRA as part of the Common Reporting (COREP) regime from 1 January 2014. CRDIV permits a transitional period whereby banks need to disclose the leverage ratio from the 1 January 2015 with an expectation that it will be a binding requirement to maintain a leverage ratio at a specific level based on appropriate review and calibration from 1 January 2018. The Basel Committee (BCBS) is currently tracking financial institutions against a minimum requirement of 3%. FCE has an established risk appetite framework and its leverage is monitored within this governance process. FCE's leverage ratio was well in excess of the minimum target and has been tracking above 12% during 2014.

Currently the leverage ratio calculation in COREP is not fully aligned with either the BCBS leverage ratio, nor the EBA's latest delegated act issued in January 2015, however for FCE the difference between the calculation methods is not material.

FCE has elected to disclose its leverage ratio as calculated using the delegated act definition of the exposure measure and a reconciliation between that and the relevant information published in FCE's financial statements as at 31 December 2014 is shown above. FCE's fully loaded leverage ratio is 12.9% at 31 December 2014.

Quantitative information

14 ASSET ENCUMBRANCE

Template A As at 31 December 2014 Assets	Carrying amount of encumbered assets Column 010 £ mil	Fair value of encumbered assets Column 040 £ mil	Carrying amount of unencumbered assets Column 060 £ mil	Fair value of unencumbered assets Column 090 £ mil
010 Assets of the reporting institution	£ 5,029	See Note 1	£ 8,020	See Note 1
030 Equity instruments	£ -	£ -	£ 3	£ 3
040 Debt securities	-	-	-	
120 Other assets	-	See Note 1	801	See Note 1

Note 1: Items shaded in grey are not a requirement under EBA disclosure guidelines.

Template B: The PRA took the option to waive Template B for all UK authorised firms and is therefore not shown here.

Template C As at 31 December 2014 Encumbered assets / collateral received and associated liabilities	Matching liabilites, contingent liabilities or securities lent Column 010 £ mil	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered Column 030 £ mil
010 Carrying amount of selected financial liabilities	£ 3,777	£ 5,029

Information on importance of encumbrance

Asset encumbrance arises from securitisation programmes that generally include the transfer of loans and advances through a variety of programmes and structured entities. Such receivables have typically been sold for legal purposes to consolidated structured entities. As the Company is not fully isolated from the risks and benefits of securitisation transactions, the Company continues to recognise the carrying value of the transferred assets.

FCE assets at 31st December 2014 totalled £13 billion. Template A shows that encumbered assets total £5 billion with the remaining £8 billion unencumbered. Template C shows that there are £3.8 billion of liabilities that match the encumbered assets.

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
Basel II	There have been a series of recommendations on banking regulation issued by the Basel Committee on Banking Supervision (BCBS), and these are known as 'Basel Accords'. Basel I was issued in 1988, with an enhanced set of rules, known as Basel II, adopted by most jurisdictions in 2008
Basel III	The 3rd instalment of the Basel Accord
BIPRU	The Prudential Regulation Authority Prudential Sourcebook for Banks, Building Societies and Investment Firms which contained the regulations to follow under Basel II. From 1st January 2014 this has been substantially replaced by the CRR (see below) except for the liquidity rules in BIPRU 12
CET1 Capital	Common Equity Tier 1 capital as defined in the CRR. This is the top quality capital tier within Own Funds and replaces Core Tier 1 Capital which existed under Basel II
CET1 Capital Ratio	Common Equity Tier 1 Capital divided by the end of period risk exposure amount as defined below
CRD IV	The 4th iteration of the Capital Requirements Directive formally published in the Official Journal of the EU on 27 June 2013. This is made up of the Capital Requirements Directive (2013/36/EU), (CRD), which must be implemented through national law, and the Capital Requirements Regulation (575/2013), (CRR), which is directly applicable to firms across the EU. CRDIV is intended to implement the Basel III agreement in the EU
CRR	The Capital Requirement Regulation, (575/2013) part of CRDIV – see above for more detail. Note that under Basel II CRR was a firm's Capital Resource Requirement as defined by the PRA in GENPRU
CVA	Credit Valuation Adjustment as defined in the CRR
FCA	Financial Conduct Authority. On 1st April 2013 the FCA became responsible for regulation of conduct in retail, as well as wholesale, financial markets and the infrastructure that supports those markets replacing the FSA
FSA	The UK Financial Services Authority – an independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000. The FSA was FCE's regulator in the UK until it was replaced from 1st April 2013 by the Financial Conduct Authority (FCA) & Prudential Regulatory Authority (PRA). FCE is now regulated by both bodies
GENPRU	The Prudential Regulation Authority General Prudential Sourcebook which contained the regulations to follow under Basel II. As from 1st January 2014, the PRA disapplied this to all firms under the scope of CRDIV as they were also covered by the CRR
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance is what the PRA considers to be an adequate level of capital to meet regulatory objectives
ILAA	An Individual Liquidity Adequacy Assessment, required by the PRA under the ILAS regime
ILAS	Individual Liquidity Adequacy Standards as set by the PRA
Own Funds	The own funds of an institution is the sum of its Tier 1 and Tier 2 capital, both of which are defined below
Pillar 1	The part of the Basel framework which sets the minimum capital requirements for institutions to hold as 8% of the risk exposure amount (as defined below)
Pillar 2	Supervisory Review Process where regulators evaluate the activities and risk profiles of individual institutions to determine whether they should hold higher levels of Own Funds than the minimum capital requirements of Pillar 1
Pillar 3	The pillar of the Basel framework which focuses on the public disclosures of institutions with the aim of enhancing transparency for all stakeholders
PRA	Prudential Regulation Authority. On 1 April 2013 the PRA became responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms replacing the FSA
PRR	Position Risk Requirement as defined in the CRR and, prior to this, in BIPRU
Risk Exposure Amount	For credit risk (including counterparty credit risk) the risk exposure amount is the risk weighted exposure value (see definition below). For CVA, Market Risk and Operational Risk the Pillar 1 capital requirement is calculated initially according to the rules contained in the CRR, and the risk exposure amount derived from that (by applying a factor of 12.5)
Risk Weighted exposures/Risk Weighted assets	For credit risk (including counterparty credit risk) the risk weighted exposure amount is the value of the exposures multiplied by the appropriate percentage risk weighting of the relevant exposure class as defined in the CRR and, prior to this, in BIPRU. These are also referred to as Risk Weighted assets (RWA)

Other information

Glossary of defined terms continued

Tier 1 Capital	Tier 1 capital is an element of Own Funds as defined above. As FCE has no additional Tier 1 capital, its Tier 1 capital is the same as its CET1 capital (as defined above) and comprises shareholder funds, net of certain deductions
Tier 1 Capital Ratio	Tier 1 Capital divided by the end of period risk exposure amount as defined above
Tier 2 Capital	Tier 2 capital is an element of Own Funds as defined above. FCE's Tier 2 capital comprises of subordinated debt and collective impairment losses
Tier 2 Capital Ratio	Tier 2 Capital divided by the end of period risk exposure amount as defined above
Total Capital Ratio	FCE's Own Funds, as defined above, divided by the end of period risk exposure amount as defined above

Other terms	Other terms meaning
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
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 US$12 billion
Foveruka	A Ford Germany pension plan whose assets include deferred and immediate annuity contracts with Alte Leipziger insurance company. Foveruka covers both hourly automotive and certain automotive and FCE salaried employees (dependent upon grade) recruited after 1 January 1993
Interim Report	FCE's consolidated interim report and financial statements as at and for the half year ended 30th June 2014
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
Public / Private securitisation	Public transactions relate to the asset-backed securities which are publicly traded and private transactions relate to sales directly to an individual or small number of investor(s)
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
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