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FCE Bank plc
ANNUAL REPORT
AND ACCOUNTS
for the year ended 31 December 2011

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Definitions

Definitions

For the purpose of this report the term

- i. **'2011 Annual Report and Accounts'** means FCE's consolidated annual financial statements as at and for the year ended 31 December 2011
- ii. **'Interim Report'** means FCE's consolidated interim report and financial statements as at and for the half year ended 30 June 2011
- iii. **'Company'** means FCE Bank plc including all its European branches, but excluding its subsidiaries and SPEs
- iv. **'Group'**, or **'FCE'**, means the Company and its subsidiaries and SPEs
- v. **'FCI'** means Ford Credit International, Inc , a company incorporated under the laws of Delaware USA, a subsidiary of Ford Credit and the Company's immediate shareholder
- vi. **'Ford Credit'**, or **'FMCC'**, means Ford Motor Credit Company LLC, a limited liability company incorporated under the laws of Delaware USA and an indirect wholly owned subsidiary of Ford
- vii. **'Ford'** means Ford Motor Company, a company incorporated under the laws of Delaware USA and the Company's ultimate parent company. In some cases, this term may mean Ford Motor Company and all or some of its affiliates
- viii. **'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
- ix. **'Risk Based Equity'**, or **'RBE'**, is a process which allocates equity based on an assessment of the inherent risk in each location. Borrowing costs are adjusted versus that reported under IFRS, to reflect the cost impact of changes in the level of debt that would be required to match the revised equity requirements. RBE enables the risk/return of individual locations to be evaluated from a total perspective
- x. **'SPE'** means a bankruptcy-remote special purpose entity whose operations are limited to the acquisition and financing of specific assets (which may include the issue of asset backed securities and making payments on the securities) and in which FCE usually has no legal ownership or management control
- xi. **'FSA'** is the UK Financial Services Authority - an independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000. The FSA is FCE's regulator in the UK

For a comprehensive list of definitions refer to the 'Glossary of defined terms' which commences on page 130

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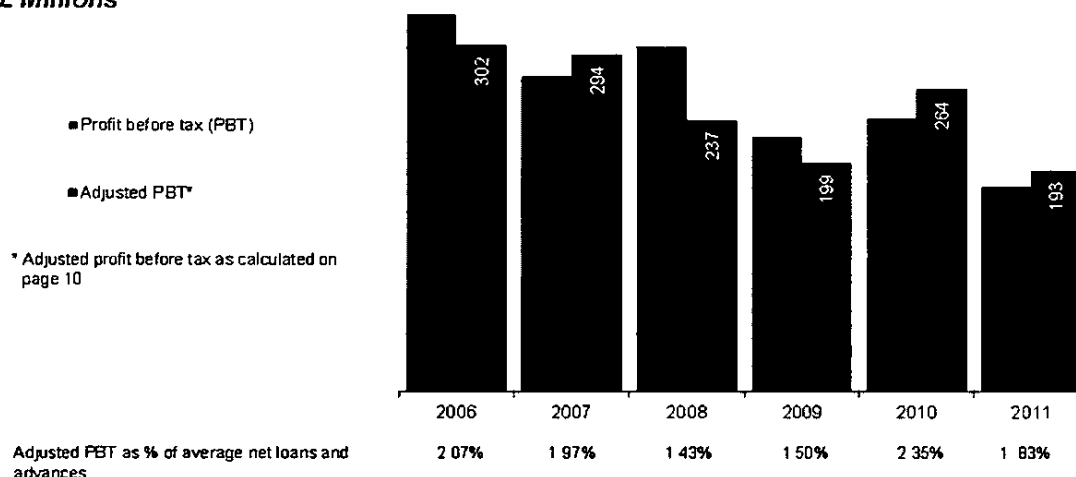
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Highlights

Profit before tax £ Millions



Lower underlying profitability reflects the impact of the reduced average portfolio losses

Credit loss ratio

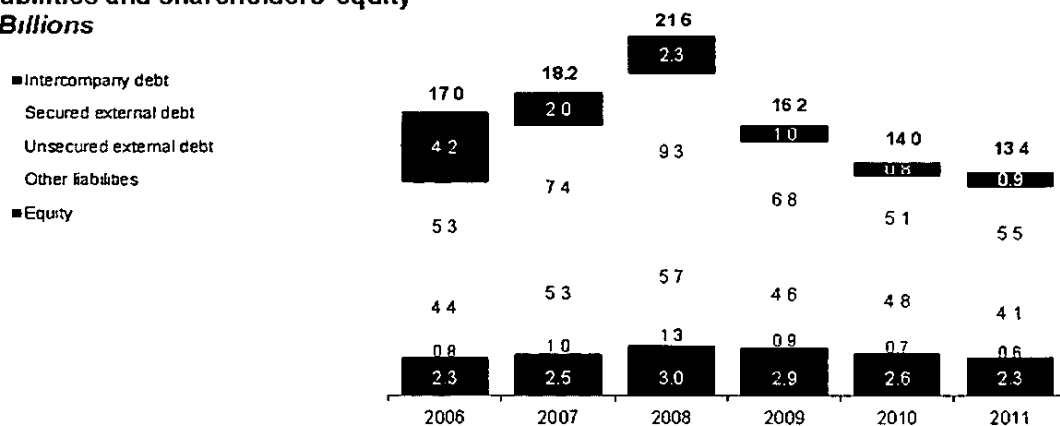
1.19%

Net losses as % of average net loans and advances*



Continued favourable credit loss performance falling to historical lows

Liabilities and shareholders' equity £ Billions



FCE continues to maintain an adequate capital base for the scale of its business

Chairman's statement

In 2011, FCE demonstrated its resilience in the face of the challenging economic environment in Europe by delivering pre-tax profits of £179 million and maintaining a strong balance sheet with core tier 1 capital of 21%. In line with the guidance provided in FCE's 2011 Interim Report, the Group's profits were lower than in 2010. This reduction of £60 million reflects lower than expected vehicle residual values, reduced average portfolio size, and the cost of holding higher liquidity as part of FCE's policy to prefund debt maturities.

During 2011, FCE continued to reduce its credit losses, which are at historic lows. Consistent application of FCE's embedded risk management practices, in line with its Board approved risk appetite, contributed to the lower credit loss experience, despite the difficult economic conditions in many markets.

The majority of FCE's business continues to be focused on the German and UK markets. The Group continues to focus on sound loan origination processes, backed up by thorough account servicing and collections procedures.

In my statement last year I said that FCE would focus on offsetting the contraction of its balance sheet, following the Group's strategic exit from the non-Ford brands, with growth in its financing share of Ford of Europe's registrations. During 2011 the FCE team made strong progress towards this aim, increasing its share of Ford of Europe's registrations to 29.8 percent, compared with 26.4 percent a year ago.

Looking forward to 2012, vehicle industry volumes in Western Europe are expected to decline as economic uncertainty impacts negatively on consumer confidence. FCE's contract volume growth is therefore likely to be constrained, although it plans to maintain high levels of penetration into Ford vehicle sales.

FCE is committed to the fair treatment of its customers at all times, and it collects, analyses and acts on data to improve its customers' experience. In addition, the satisfaction of both customers and dealers with the Group's services plays a key role in it achieving its finance share. Accordingly, I am pleased to report that the proprietary surveys commissioned by FCE show strong customer and dealer satisfaction during the previous 12 months.

Customers are benefiting from FCE's continued investment in online tools to enable them to interact with FCE at their convenience. This includes the launch of the Customer Finance Application in the UK, which enables customers to apply for FCE vehicle financing from home. Plans are underway to make this application available to FCE's customers in Germany.

FCE's strong capital position allowed it to pay a dividend of £370 million to its parent, Ford Motor Credit Company, during 2011. This action was consistent with FCE's plan to gradually align its capital base with the reduced scale of its business. Based on present assumptions and subject to meeting its regulatory requirements, FCE expects to pay a marginally smaller dividend in 2012 than it paid in 2010 and 2011.

Both FCE and its parent experienced improved credit ratings during the year, with FCE now holding an investment grade rating (BBB-) from Standard & Poor's. This contributed towards FCE successfully executing its 2011 funding strategy, expanding its investor and lender base and raising £2.1 billion of new funding. This includes a new £440 million three-year syndicated multi-currency unsecured credit facility, and a public term securitisation transaction. FCE also renewed or added £3.1 billion of private committed securitisation capacity.

Given the Group's longer-term committed borrowings and the short-term nature of its lending, FCE's balance sheet continues to be inherently liquid.

FCE is proud of its results which show the continued strength and viability of its 'captive finance' business model. FCE has a unique pan-European footprint, robust risk management practices, a dedicated partner in Ford, and hardworking employees who see change management as an established way of doing business. With these qualities, the FCE team is ready to face the challenges of 2012 with confidence.



Todd Murphy
Chairman, FCE Bank plc
22 March 2012

Description of the business

What FCE is

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

What FCE does

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

FCE helps Ford retail customers acquire Ford vehicles by providing

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

This area of business is referred to as 'Retail' within the 2011 Annual Report and Accounts.

FCE helps Ford dealers sell Ford vehicles by providing

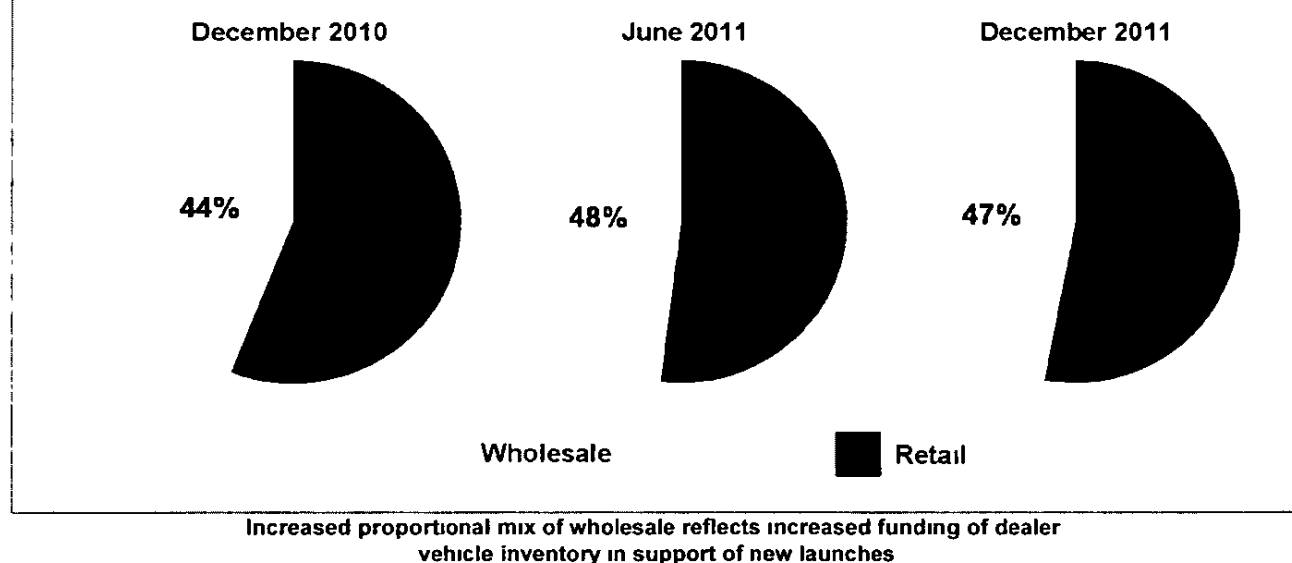
- finance to stock new and used vehicles,
- finance for demonstrator and courtesy cars,
- finance to enable dealers to operate their business

This area of the business is referred to as 'Wholesale' within the 2011 Annual Report and Accounts.

FCE helps Ford's automotive operations by providing

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

Analysis of net loans and advances by product segment



Description of the business

Where FCE operates

FCE operates directly in **15** European countries through a branch and subsidiary network, providing branded financial services for Ford. FCE also continues to service liquidating retail portfolios for Volvo, Mazda, Jaguar and Land Rover.

The Company also has a Worldwide Trade Finance division, (WTF) which provides finance to distributors and importers in over **60** countries.

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

For further information in regard to FCE refer to Note 46 'FCE and other related party information' and 'Other Information – European Operating Locations'.

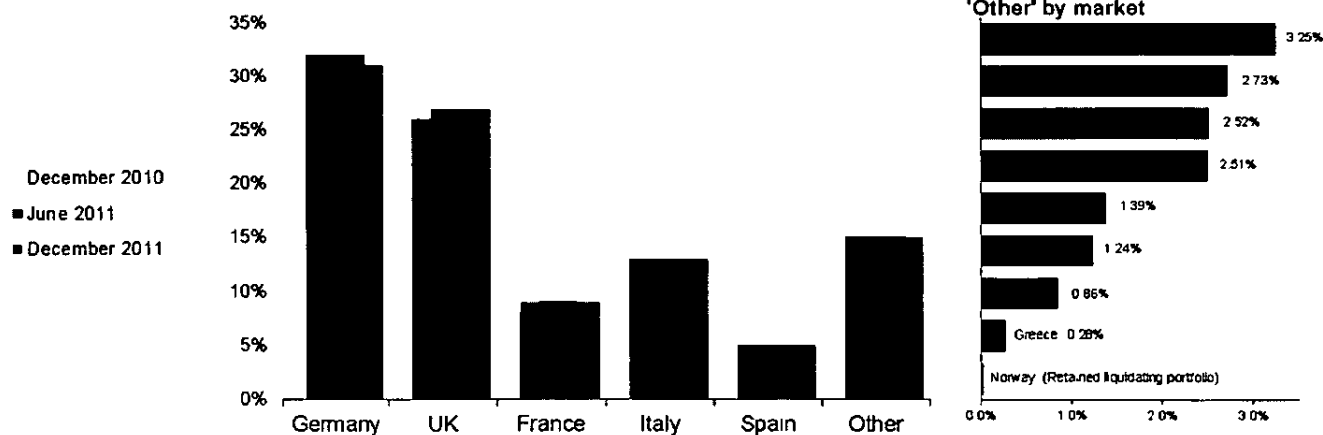


FCE employs around 1,800 staff in 15 European countries to serve over 3,500 dealers.

Markets served by.

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

Analysis of net loans and advances to customers by market



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

Strategy

FCE's principal objectives are to support the sale of Ford vehicles and return value to its shareholder. A controlled increase in FCE's share of Ford's sales will assist in offsetting the continued contraction of FCE's balance sheet as the non-Ford receivables liquidate. These objectives provide the overriding guidance for FCE's actions and decisions, and are implemented with a focus on its three main customer groups.

The retail customer

FCE's business model goes beyond simply providing access to finance for customers to purchase or lease a motor vehicle. FCE strives to enable the customer to replace his or her vehicle as often as they would like, while maintaining affordable monthly payments. The customer benefits 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.

The dealer

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

Ford automotive operations

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

Strategic enablers

Operational effectiveness

FCE has continued to derive efficiencies by simplifying its business processes and through standardising core information technology (IT) platforms. This enables it to minimise the number of unique IT systems in core activities. The Company operates centralised service centres in the majority of locations and shares best practices across Europe and globally to drive continuous improvements. FCE continues to develop and implement the optimal operational model to deliver a sustainable and successful business that will deliver FCE's strategy while improving customer service and owner loyalty.

People

A drive for high performing people and teams is a foundation of FCE's strategy. This is detailed within the 'People' section on page 24.

Funding efficiency

FCE's funding strategy is to maintain sufficient liquidity to meet short-term funding obligations by having a substantial cash balance, committed funding capacity, and access to diverse funding sources that are cost effective. This is detailed within the 'Capital and Funding' section on page 16.

Strategic partnerships

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

Governance and control

FCE considers effective corporate governance as a key factor underlying the strategies and operations of the Group. This is detailed within the 'Key Governance Principles' section on page 29.

Risk management

FCE has extensive risk management experience gathered over several economic cycles. Its focus is on internally leveraging and strengthening Ford Credit's global risk skills. This is detailed within the 'Risk' section on page 20.

Performance summary

Business environment

Despite the weakening of the economic environment in several European markets, the ongoing debt crisis and continued uncertainty surrounding the future of the Euro-zone, FCE has successfully funded its business and continued to support the sale of Ford vehicles in 2011

Although the funding environment remains challenging, FCE has been able to successfully execute its funding strategy and both FCE and its parent experienced improved credit ratings during the period

Consistent application of FCE's embedded risk management practices has delivered historical low credit losses, despite the difficult economic conditions in many markets

Following the transition of Jaguar, Land Rover, Mazda and Volvo financing business to other providers, FCE has successfully implemented its strategy to focus on financing Ford vehicles, achieving its aim of growing its share of that business during 2011

FCE continues, however, to take steps to maintain a competitive cost structure and during 2011, FCE implemented further restructuring actions to continue to align its European operations to match the scale of the business

Sales

Sales results	2011	2010
Automotive sales in Western Europe (vehicles mils)	15.3	15.3
Ford share of Western Europe car market	8.3%	8.4%
FCE new contracts as a percentage of Ford sales	29.8%	26.4%
FCE sales of new and used retail/lease contracts ('000's)	443	406

Overall, total Western European industry sales in 2011 remain in line with those seen in 2010. This reflects the continued weakening of the economic environment in Southern Europe as a result of the ongoing debt crisis and the corresponding impact on consumer sentiment and disposable income, offset by growth in other Western European markets, primarily Germany

The increase in FCE sales of new and used retail and lease contracts primarily reflects FCE's increased penetration into Ford sales

Customer satisfaction

Customer satisfaction is monitored through sample market research covering a range of questions. Customer Satisfaction Index (CSI) and Dealer Satisfaction Index (DSI) reflect the percentage of those customers and dealers who are completely or very satisfied with their experience in dealing with FCE. The metrics are used internally to drive appropriate improvements in FCE's service as a key contributor to further improving customer loyalty

The 2011 results show continued improvement, particularly in DSI, as FCE's realises the benefits from its investment in customer-facing online services and new technologies for Ford dealers

FCE's strategy is to continue to focus its efforts on this key area to ensure it delivers increased value to its customers and achieves its objective of achieving growth through increased penetration into a smaller market

Satisfaction Indices	2011	2010
Customer Satisfaction Index (CSI)	87%	85%
Dealer Satisfaction Index (DSI)	95%	89%

Performance summary

Profitability

	Notes	2011 £ mil	2010 £ mil
Profit before tax (PBT)		£ 179	£ 239
Adjustment to exclude exceptional losses	9	(5)	18
PBT excluding exceptional items		£ 174	£ 257
Adjustment to exclude			
- Fair value adjustments to financial instruments - (gains)	7	(5)	(34)
- (Gain) / loss on foreign exchange	8	24	41
Financial instruments fair value and foreign exchange adjustments		£ 19	£ 7
Adjusted PBT		£ 193	£ 264

Profit before tax

FCE's total profit before tax (PBT) in 2011 decreased by £60 million compared to the previous year

PBT includes a number of exceptional items (significant items which by virtue of their size or incidence are separately disclosed to aid the interpretation of performance compared to the prior year), fair value adjustments to financial instruments and foreign exchange adjustments

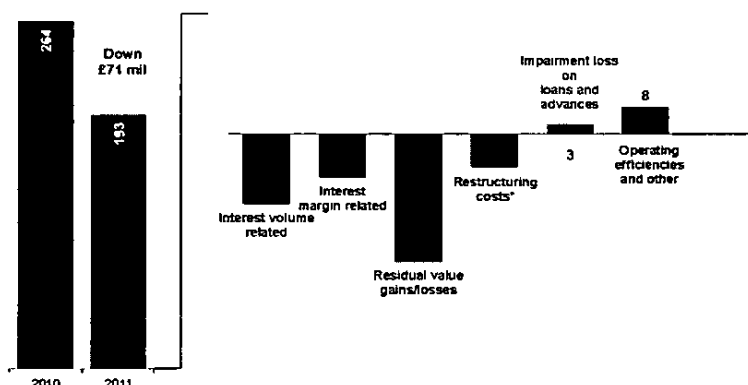
The exceptional items in 2011 reflect an expense incurred under a portfolio sale agreement and income received under a historical profit sharing agreement. The 2010 exceptional items primarily reflect restructuring actions and a discrete voluntary pension contribution payment. For further details refer to Note 9 'Profit before tax'

FCE's policy is to minimise exposure to operating results from changes in interest rates and currency exchange rates. Derivatives are used to manage these risks. As a matter of policy, FCE does not use derivatives for speculative purposes. Fair value adjustments to financial instruments and foreign exchange adjustments are therefore excluded from PBT.

Excluding the exceptional items, fair value adjustments, and foreign exchange adjustments, FCE's adjusted PBT decreased by £71 million. The following graph shows an analysis of this year-over-year PBT movement by the main causal factors.

Adjusted PBT (£ Millions)

- Reduced interest income primarily from reduction in retail portfolio volume resulting from the liquidation of non-Ford brands
- Reduced interest margin due mainly to the costs of holding increased liquidity, partially offset by reduced borrowing spreads
- Non-recurrence of prior year residual value gains and current year losses from operating lease vehicles
- Lower retail losses in Spain, Germany, Italy and UK partially offset by lower reserve releases and increased reserve in some markets



Lower underlying profitability reflects the impact of the reduced average portfolio size, the costs of holding higher liquidity, the non-recurrence of prior year residual value gains and lower than expected current year vehicle residual values.

*In 2010, 'Restructuring costs' were included as 'Exceptional items' within Note 9. Due to their incidence of occurrence and size, FCE considers that the ongoing costs relating to restructuring actions do not currently meet the definition of an exceptional item. The Group continually seeks opportunities to align its structure to the changing business environment.

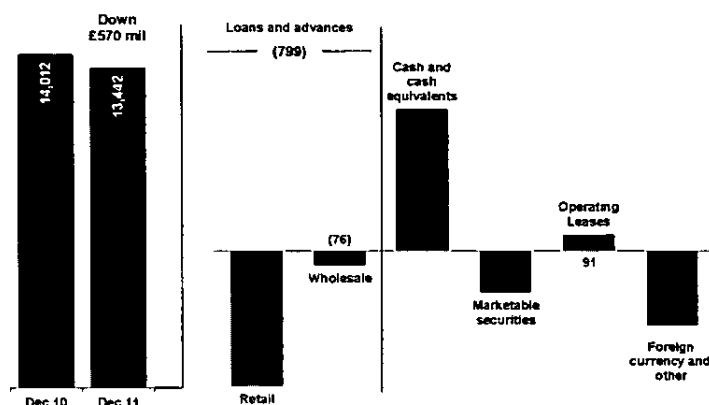
Performance summary

Balance sheet

The following graphs show an analysis of the balance sheet movements between 2010 and 2011

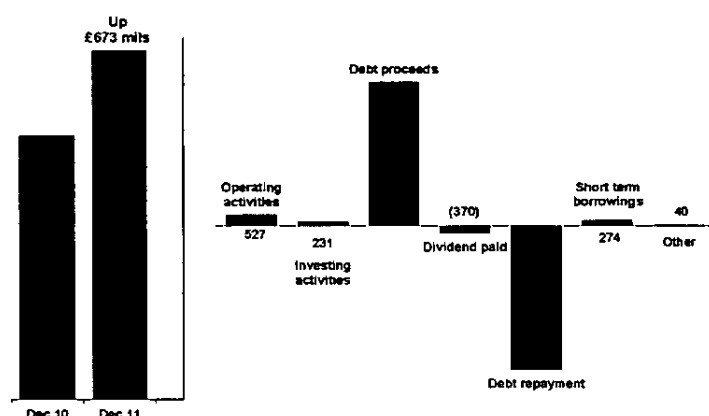
Assets (£ Millions)

- Reduced 'loans and advances' primarily reflects the continued liquidation of non-Ford brands
- Increased 'cash and cash equivalents' due primarily to prefunding of pending unsecured debt maturity and liquidation of 'marketable securities'
- Increase in 'Operating leases' relates to increased short-term lease business in Germany



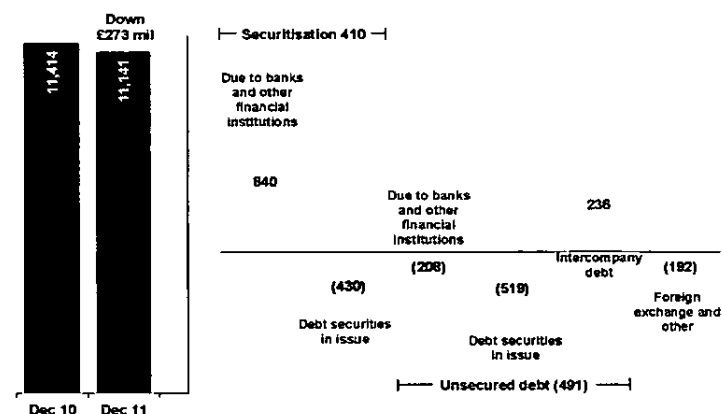
Cash and advances £ Millions

- Increased cash and advances at the year end to meet an unsecured debt maturity in January 2012
- New funding includes the utilisation of existing available committed securitisation capacity and new unsecured credit facilities and the issuance of new public unsecured and securitisation debt
- Debt repayments include scheduled public debt repayments and repurchases and the early settlement of EIB funding



Liabilities £ Millions

- Increased use of existing committed securitisation capacity and new unsecured bank lines at year end to meet an unsecured debt maturity in January 2012
- Debt securities in issue not in respect of securitisation decreased following a £0.7 billion maturity in February, partially offset by a £0.4 billion public unsecured issuance in May
- Increased intercompany debt represents new collateralised deposit received, offset by further repayment of subordinated loans



Performance summary

Key financial ratios

Key financial ratios	2011	2010
Return on equity	5.0%	5.9%
Margin	3.7%	4.1%
Cost efficiency ratio	1.9%	1.7%
Cost affordability ratio	51.4%	42.2%
Credit loss ratio	0.19%	0.33%
Credit loss cover	0.6%	0.7%
Tier 1 capital / Risk weighted exposures Basel II basis	21.1%	21.2%
Total regulatory capital / Risk weighted exposures Basel II basis	23.4%	23.6%

The ratios above exclude exceptional items in order to show underlying or 'normalised' performance. Refer to page 127 for the 'Key financial ratio and terms' definitions and for further details of the calculation of key financial ratios.

FCE's return on equity decreased from the same period last year, reflecting the reduced profit before tax, partially offset by a lower level of average equity following dividend payments made in 2011 and 2010.

'Margin' reduced due to the cost associated with holding higher levels of liquidity, partially offset by reduced borrowing costs.

The slight increase in FCE's 'cost efficiency ratio' primarily reflects the reduction in average loans and advances from the prior period, partially offset by cost efficiency actions. The increased 'cost affordability ratio' reflects lower income from the reduced receivables base.

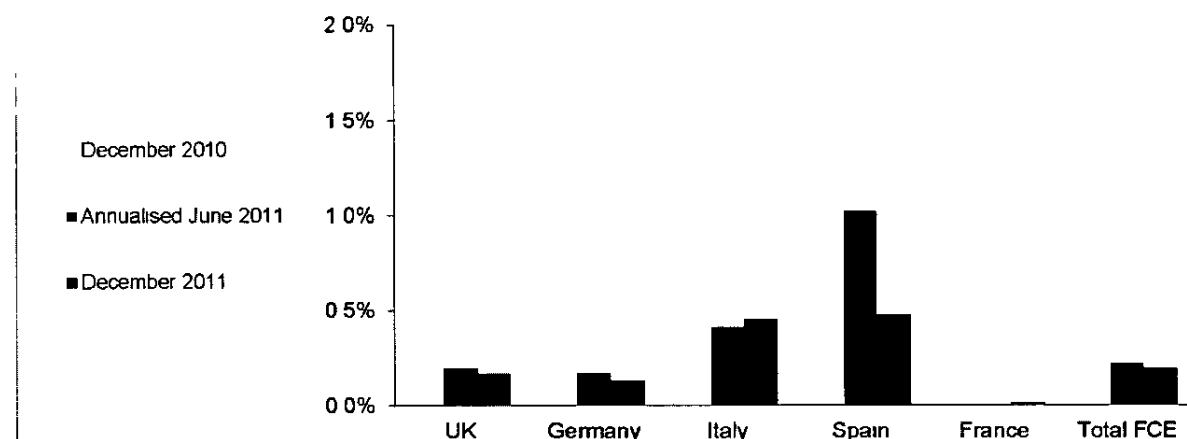
FCE's 'credit loss ratio' is lower than experienced in 2010. This reflects the consistent quality of FCE's portfolio despite continued instability in Europe's economic conditions.

The slight decrease in FCE's 'credit loss cover' is driven by a reduction in FCE's collective impairment allowance to £62 million at 31 December 2011 from £81 million at the same period 2010, reflecting reduced average loans and advances to customers and improved credit loss performance. FCE judges that its impairment allowance is appropriate for the current balance sheet size and economic outlook.

Performance summary

Ratios continued

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



Continued favourable credit losses falling to historical lows

This chart expresses annualised net credit losses for both wholesale and retail financing as a percentage of average net loans and advances to customers including exceptional losses

FCE's credit loss performance relates to both low loss emergence and strong recovery performance on previously impaired loans and advances

FCE has continued to see strong credit loss performance in both Germany and the UK, its two largest markets. The loss ratio in Spain is also improved, but remains higher than that experienced in other markets

Performance summary

Future prospects

Vehicle industry volumes in Western Europe are expected to decline in 2012 as economic momentum continues to slow across most markets and the effects of economic uncertainty impact negatively on consumer confidence

FCE's contract volume growth is therefore likely to be constrained despite maintaining high levels of penetration into Ford vehicle sales

As previously reported, Volvo, Mazda, Jaguar and Land Rover have transitioned their financial services to alternative providers. As at 31 December 2011, non-Ford branded financing represents less than 2% of FCE's net loans and advances to customers. The retail and lease portfolio will continue to be serviced by FCE through to liquidation of the respective contracts. FCE's revenue will reduce in proportion to the decline in these loans and advances as they liquidate.

At year-end 2012 FCE anticipates 'Net loans and advances to customers' to be in the range of £9 billion to £11 billion.

FCE's 2012 funding plan includes unsecured term funding in the range of £0.7 billion to £1.4 billion and a range of £0.3 billion to £0.7 billion in public term securitisation issuance.

FCE expects its secured debt to be in the range of 55% to 61% of net loans and advances to customers at 31 December 2012. Thereafter, FCE expects that this ratio will decline.

FCE will continue to invest in order to support growth in its share of Ford brand sales and in restructuring its operations to match its smaller scale.

In 2012 FCE expects its 'Adjusted PBT' to be lower than that experienced in 2011, reflecting reduced revenue from lower average net loans and advances and the cost of maintaining high levels of liquidity in response to potential future economic uncertainty. These effects will be partially offset by reduced borrowing costs due to the improved credit rating of FCE and its parent.

FCE's plan is to gradually align its capital base with the reduced scale of its business while taking account of the funding and liquidity environment. Based on present assumptions and subject to meeting its regulatory requirements, FCE expects to pay a dividend in 2012 that is marginally smaller than those paid in 2010 and 2011.

This future prospects statement is based on current expectations, forecasts and assumptions and involves a number of risks, uncertainties, and other factors that could cause actual results to differ. FCE cannot be certain that any expectations, forecasts and assumptions will prove accurate or that any projections will be realised. The statement is based on the best available data at the time of issuance and will be updated upon publication of FCE's 2012 Q1 Management Statement. Other than this FCE does not undertake to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Regulation

Regulation

FCE maintains the appropriate regulatory authorisations and permissions for the locations in which it operates. In the UK FCE is authorised and regulated by the UK's sole regulator, the FSA, to carry on a range of regulated activities - both within the UK and throughout its European branch network.

FCE currently has branches in eleven other European countries and is subject to consolidated supervision, through varying EU directives, with the FSA being FCE's home state regulator for all of its European branch operations. Each location may then in-turn be subject to host state regulatory requirements through local regulators and / or central banks. In its role as home state regulator, the FSA seeks to maintain market confidence, enhance financial stability, reduce financial crime and secure an appropriate degree of protection for consumers. The FSA supervises firms through a variety of regulatory tools. These methods include the collection of information from statistical and prudential returns, reports obtained from skilled persons, visits to firms and regular meetings with management.

The FSA adopts a risk-based approach to supervision. The starting point for supervision of all financial institutions is a systematic analysis of the risk profile for each authorised firm. The FSA has adopted a homogeneous risk, processes and resourcing model in its approach to its supervisory responsibilities, known as the Advanced Risk Response Operating Framework (ARROW) model, and the results of the risk assessment are used by the FSA to develop a risk mitigation programme for a firm. The FSA has requirements for banks and other financial institutions to adhere to on matters such as capital adequacy, limits on large exposures, liquidity and conduct of business rules. Certain of these requirements derive from European Union directives with examples as described below.

In Europe, the UK regulatory agenda is considerably shaped and influenced by the directives and proposals emanating from the EU. A number of EU directives have been or are currently being implemented, for example The Consumer Credit Directive, The Insurance Mediation Directive and The Capital Requirements Directive.

Regulators

In 2011, the UK government clarified its plans to move regulatory authority from the Financial Services Authority (FSA) to the Bank of England, under which the Prudential Regulatory Authority (PRA) will provide prudential oversight of banks and insurers and the Financial Conduct Authority (FCA - successor body to the FSA) will provide oversight of conduct and markets, along with the prudential regulation of

other financial firms. The change is scheduled to take effect in 2013. FCE will become regulated by both bodies.

Internal Capital Adequacy Assessment Process

Annually the Board of Directors approves its Internal Capital Adequacy Assessment Process (ICAAP) declaration and submits the declaration to the FSA. The ICAAP rules require management to recommend a total economic capital level necessary to operate its business. Each assessment is completed after careful analysis of FCE's primary risks, risk mitigation, risk appetite, and stress testing and scenario planning. Each ICAAP is reviewed at Audit Committee and Board meetings. As required by Basel II Pillar 3, FCE provides additional disclosures as part of the market discipline requirements, including capital, risk exposures and risk assessment processes. The disclosures are published on FCE's website. FCE's website address is provided on page 128.

Individual Liquidity Adequacy Assessment

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

Recovery and Resolution Plan

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

Basel III

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

Independent Commission on Banking (Vickers Report)

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

Capital and funding

Capital

FCE's policy is to manage its capital base to targeted levels that exceed all regulatory requirements and support anticipated changes in assets and foreign currency exchange rates. FCE's core Tier 1 capital ratio was at 21.1% as of 31 December 2011 (31 December 2010: 21.2%).

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

FCE's solvency ratio is reported within FCE's Basel II Pillar 3 disclosures and was 292% at 31 December 2011 (2010: 295%). The solvency ratio indicates that FCE is holding capital in excess of its Basel II minimum capital requirements as assessed under both Pillar 2 ICAAP and Pillar 1 minimum capital requirements.

FCE remains well capitalised given its continued role as a secured lender in the specialist automotive finance sector. There was no change to the Company's issued share capital during 2011. Regulatory capital is defined by tiers. FCE's Tier 1 capital comprises shareholder funds, net of intangible assets and goodwill. FCE's Tier 2 capital comprises subordinated debt and collective impairment losses. As FCE does not have a trading book, its capital structure does not include any Tier 3 capital. For further details, refer to Note 33 'Components of capital'.

Funding

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 credit ratings continued to improve in 2011 with S&P now rating FCE at BBB-

Securitisation continues to represent a substantial portion of its funding mix given the cost advantage over unsecured long-term funding. At 31 December 2011, secured debt was 56% of net loans and advances (2010: 47%). The mix of secured debt was temporarily lower at year end 2010 as a significant amount of FCE's liquidity was held in the form of unutilized available committed securitisation capacity.

During 2011, and consistent with its funding plan, FCE raised £2.1 billion of new funding, including a public unsecured debt issuance and a public term securitisation transaction. FCE also renewed or added £3.1 billion of private committed securitisation capacity. Throughout 2011 FCE generally experienced lower costs across the facilities renewed and new lenders were added to its securitisation programmes.

Year-to-date through 22nd March 2012, FCE had renewed or added £1.0 billion of committed capacity, including programmes funding Italian and Spanish retail receivables. FCE does not have any securitisation programmes in Greece, Ireland or Portugal.

FCE continues to obtain limited funding from the European Central Bank (ECB) under a longstanding credit claim programme using certain of its German wholesale receivables as collateral. For further details, refer to Note 25 'Due to banks and other financial institutions'.

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

Capital and funding

Funding sources

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

The Company securitises retail, leasing and wholesale receivables through a variety of structures, including amortising and revolving structures as well as other committed factoring transactions. FCE's aims for diversification in its securitisation programmes, with about 25 active transactions providing term funding or committed liquidity for each of its primary asset classes (retail and lease contracts, wholesale loans) across a wide range of European markets. With many years of experience in the securitisation of its receivables, the Company has developed a strong expertise and solid working relationships with partner banks and in public markets.

All of FCE's securitisation programmes inherently provide for matched funding of the receivables, with securitisation debt having a maturity profile similar to the related receivables. The majority of its programmes also include a contractual commitment to fund existing and future receivables subject to conditions described more fully in Note 18 'Securitisation and related financing'. In the event that a contractual commitment is not renewed, all receivables securitised at the point of non-renewal remain funded, and the related debt is repaid as the receivables liquidate.

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. The Company therefore continues to recognise the carrying value of all securitised assets within its balance sheet.

FCE holds senior retained interests in several of its programmes to provide greater flexibility in the use of its committed securitisation capacity. As at 31 December 2011, FCE maintained senior interests in these committed securitisation programmes sufficient to generate £0.2 billion in funding proceeds. Under these programmes, funding counterparties are legally obligated, at FCE's option, to make advances under asset-backed securities, thereby reducing FCE's senior interest and generating funding proceeds. Depending on the programmes, these senior interests may be held as senior securities, which rank pro-rata and pari-passu with the senior securities held by external investors, or an amount by which FCE's retained interest exceeds its contractual minimum retained interest.

(For further information see Note 18 'Securitisation and related financing')

FCE's external unsecured debt consists primarily of notes issued under its European Medium Term Note (EMTN) programme. This debt is issued generally with original maturities of 3-5 years, which exceeds the average expected life of its receivables. FCE has limited amounts of short-term unsecured funding consisting primarily of local bank borrowings.

As at 31 December 2011, FCE had inter-company funding of £0.9 billion which consisted primarily of collateralised deposits held to mitigate large exposure concentrations, and Tier 2 capital in the form of subordinated debt.

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

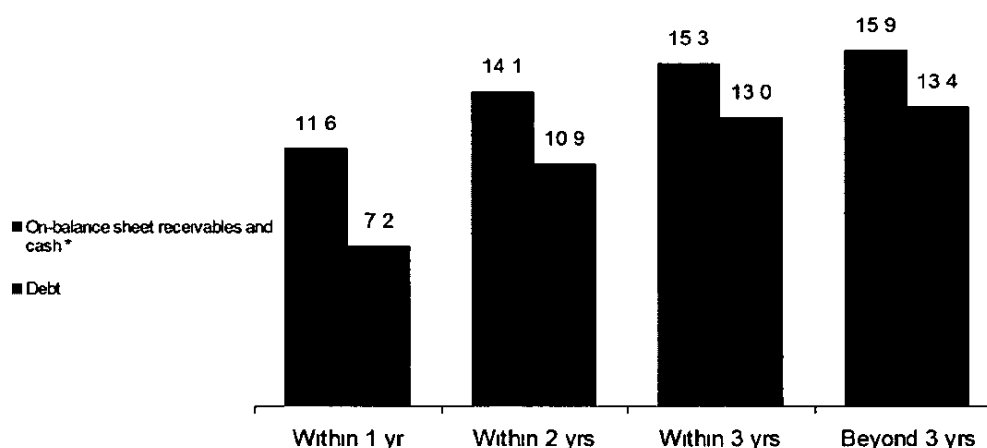
Net Cash Inflow from funding raised for the year ending	31 Dec 2011
	£ btl
New issuance	Net Cash Inflow
- Securitisation of retail and lease automotive receivables	£ 1.1
- Securitisation of wholesale automotive receivables	-
- Unsecured debt	1.0
Total new issuance	£ 2.1
Existing facilities	
- Securitisation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

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

Capital and funding

Liquidity

Cumulative Contractual Maturities as at 31 December 2011



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

Source: Group data from Note 41 'Liquidity risk'.

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

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

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

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

Capital and funding

Liquidity continued

The decrease in cash not available for use in FCE's day to day operations is primarily due to the lower level of cash reserves held in respect to securitisation

In June 2011, FCE entered into a new £440 million three year syndicated multi-currency unsecured credit facility. In connection with entering into the new facility, FCE terminated the majority of its existing bi-lateral contractual committed credit facilities and by 31 December 2011 all of this capacity was terminated.

This facility contains certain covenants, including an obligation for FCE to maintain its ratio of regulatory capital to risk-weighted assets at no less than the applicable regulatory minimum, and for the support agreement between FCE and Ford Credit to remain in full force and effect (for more details of this support agreement, refer to Note 31 'Ordinary shares and share premium'). In addition to customary payment, representation, bankruptcy, and judgment defaults, the facility contains cross-payment and cross-acceleration defaults with respect to other debt.

At 31 December 2011, £311 million was available for use with £129 million drawn during December 2011 as part of FCE's plans for periodic usage of the facility.

Of the banks in FCE's securitisation and unsecured committed liquidity programmes, the substantial majority are domiciled in UK, France, North America and Germany.

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

Credit ratings

FCE's short-term and long-term debt is rated by three major credit rating agencies.

- Fitch, Inc ('Fitch')
- Moody's Investors Service, Inc ('Moody's') and
- Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc ('S&P')

FCE's credit ratings are closely associated with the credit ratings of Ford and Ford Credit, which improved during 2011 but remain below investment grade. S&P assigns a one notch positive differential credit rating to FCE compared with Ford Credit. This means that FCE is now rated investment grade by S&P. FCE's credit ratings assigned by Fitch and Moody's are the same as the ratings these agencies assign to Ford Credit.

The following chart summarises the long-term senior unsecured credit ratings, short-term credit ratings and the outlook assigned to FCE from January 2010 to March 2012.

Credit ratings	Fitch			Moody's			S&P		
	Long Term	Short Term	Outlook	Long Term	Short Term	Outlook	Long Term	Short Term	Outlook
January 2010	B+	B	Positive	B3	NP	Stable	B	NR	Stable
March 2010	B+	B	Positive	B2	NP	Stable	B	NR	Stable
March 2010	B+	B	Positive	B1	NP	Review Positive	B	NR	Stable
April 2010	BB-	B	Positive	B1	NP	Review Stable	B	NR	Positive
May 2010	BB-	B	Positive	Ba3	NP	Stable	B	NR	Positive
August 2010	BB-	B	Stable	Ba3	NP	Stable	BB-	NR	Positive
October 2010	BB-	B	Stable	Ba2	NP	Stable	BB-	NR	Positive
January 2011	BB-	B	Positive	Ba2	NP	Positive	BB-	NR	Positive
February 2011	BB-	B	Positive	Ba2	NP	Positive	BB	NR	Positive
October 2011	BB+	B	Positive	Ba1	NP	Positive	BBB-	NR	Stable

Dividends

In May 2011 FCE paid a dividend of £370 million which equates to 60.22 pence per ordinary share. This dividend payment is consistent with FCE's strategy to align its

capital base with the reduced scale of its business, while taking account of the funding and liquidity environment.

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. FCE manages each form of risk uniquely in the context of its contribution to overall risk. Business decisions are evaluated on a risk aware and risk adjusted basis and are priced consistent with these risks.

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

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

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

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. The Company has the benefit of a support agreement from Ford Credit. This is detailed within Note 31 'Ordinary shares and share premium'.

In addition, FCE has the benefit of

- access to on-lent debt from Ford, Ford Credit and Ford Credit International (FCI) from time to time, and
- interest supplements and other support payments from Ford provided for certain financing transactions.

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

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

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

Liquidity risks and capital resources

Liquidity risk is the possibility of being unable to meet present and future financial obligations as they become due. FCE's funding strategy is to focus on diversification of funding sources, and investors, to manage liquidity risk in all market conditions. FCE is funded, primarily through securitisation, unsecured debt and equity, with debt that, on average, matures later than assets liquidate.

FCE holds liquidity in the form of cash, marketable securities, and committed capacity. FCE's committed capacity is in the form of committed securitisation capacity (which is free of material adverse change clauses, restrictive financial covenants and credit rating triggers – note 18 provides more details), and contractually committed unsecured credit facilities (which has similar terms with the exception of certain covenants, Note 41 provides more detail).

FCE has an automated liquidity reporting system, and manages liquidity risk around key liquidity risk drivers.

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 recognise that liquidity may be affected by the following factors (not necessarily listed in order of importance or probability of occurrence)

- Credit ratings assigned to FCE,
- Prolonged disruption of financial markets,
- Global capital market volatility,
- Market capacity for Ford, Ford Credit and FCE sponsored investments,

Risk

Liquidity risks and capital resources continued

- General demand for the type of securities FCE offer, including ability to access central banks and government funding,
- The Company's ability to continue funding through asset-backed financing structures,
- Performance of the underlying assets within the existing asset-backed financing structures,
- Regulatory changes,
- FCE's ability to maintain credit facilities and renew committed liquidity programmes, and
- FCE's ability to obtain derivatives to manage risk

Concentration risk

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

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

FCE's consumer financing portfolio is inherently granular in nature and this combined with its detailed knowledge of the respective markets and its long and comprehensive experience within automotive financing provides strong mitigation to concentration risks that may otherwise arise. Counterparty exposures are closely monitored and managed through a series of processes depending on counterparty type and associated risk.

Operational risk

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

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

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

A guiding principle is that management at all levels is responsible for managing operational risks. FCE also maintains a strong internal control culture across the organisation through the Modular Control Review Programme, a self-assessment control process used by the locations, which is reinforced by central controls from the Internal Control Office (ICO) and Ford's General Auditors Office (GAO). This is detailed within the 'Audit Committee Report' section of the 2011 Business Review.

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.

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 automobiles, 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.

Risk

Vehicle residual value risk continued

They are set at the expected future value of the vehicles however for TCM contracts (which are the vast majority of contracts for which FCE accepts vehicle residual value risk) the values 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

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

For further details refer to Note 39 'Vehicle residual values'

Group risk

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

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 re-possessed collateral provides a source of protection. FCE actively manages the credit risk on retail and commercial portfolios to balance the levels of risk and return

Retail (Consumer and Commercial) credit risk management

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

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

Pension risk

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

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

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

models are reviewed, revalidated and recalibrated as necessary. Retail credit loss management strategy is based on extensive historical 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

Risk

Wholesale credit risk management

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

Each wholesale 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 Company could also incur a credit loss if the counterparty to an investment, interest rate or foreign currency derivative with FCE defaults

For further detail on these risks refer to Note 38 'Credit risk'

People

FCE aims to be an employer of choice and has a strong focus on developing employees together with a retention strategy to ensure that the skills and experience required to support business objectives are retained. FCE's people strategy includes the use of Personnel Development Committees to support the recruitment and development of employees and ensure effective succession planning for key roles, and a remuneration and benefits philosophy targeted at achieving overall competitiveness with the external market, rewarding contribution to FCE's performance and retaining key skills. Completion of annual individual development plans for all employees identifies training and development needs priorities, including Treating Customers Fairly, Compliance and Risk Management.

FCE is committed to diversity in the workplace. This approach values the differences provided by culture, ethnicity, race, gender, disability, nationality, age, religion/beliefs, education, experience and sexual orientation. FCE uses the views of employees to improve processes and to foster a culture based on honesty and respect.

Applications for employment by persons with a disability are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with FCE continues and that appropriate support is arranged. It is FCE's policy that the training, career development and promotion of persons with a disability should, as far as possible, be identical with that of other employees.

Consistent with the principle of diversity, FCE also operates a Dignity at Work policy which promotes a business environment where employees, customers and suppliers are valued for themselves and their contribution to the business. FCE is committed to conducting its business with integrity and utilising the talents of everyone through providing an environment free from unlawful discrimination, harassment, bullying and victimisation.

Employee communication

FCE keeps all employees informed of its activities on a national, pan-European and global level by means of in-house publications, intranet and the publication of its external reports and financial statements. FCE conducts an annual employee satisfaction survey with a feedback and action-planning process aimed at continued dialogue between management and staff to achieve appropriate levels of employee satisfaction. In addition senior management conducts regular cascade meetings throughout the year with employees. These allow management to communicate key business information including the factors affecting the financial and economic performance of FCE, whilst allowing two-way dialogue via question and answer sessions on business matters. FCE also fully complies with relevant European and national legislation on information and consultation procedures.

Employment practices

FCE complies fully with relevant legislation enacted by both European and national parliaments on Human Resources (HR) policy and process. FCE ensures that HR policies and procedures meet the aims of any relevant FSA and other national regulatory requirements. The Company is also committed to best practice HR policies and processes in support of the business objectives and in line with its employer of choice strategy.

Employees

During 2011, as part of ongoing cost efficiency actions, FCE has completed various voluntary employee redundancy actions in its European operations. Details of the average number of employees and related costs can be found in Note 5 'Operating expenses'.

Community

FCE has a long standing commitment to the communities across Europe in which it works. This includes providing some structured work experience programmes for young people in its offices and encouraging FCE's employees to give something back to their local community, both inside and outside work time. Accordingly, FCE has a policy that all employees can have up to 16 normal paid work hours per annum (equivalent to two paid work days) to invest in community projects.

People

Pensions

The Executive Directors and the majority of employees of the Company are accruing benefits as members of various retirement plans administered by Ford. This is detailed within Note 34 'Retirement benefit obligations'.

Directors' and officers' liability insurance and indemnity

Ford has purchased insurance to cover its Directors and officers for all its affiliates against such Directors and officers costs in defending themselves in civil legal proceedings taken against them in that capacity and in respect of damages resulting from the unsuccessful defense of any proceedings.

At the date upon which this report was approved, and throughout the 2011 financial year, the Company has provided an indemnity in respect of all its Directors. Neither the insurance nor the indemnity provides cover where the Director has acted fraudulently or dishonestly.

Remuneration policy

FCE meets the requirements of the FSA Remuneration Code in all its aspects. FCE completes disclosure requirements in accordance with the FSA's prudential sourcebook for banks, building societies and investment firms (BIPRU 11.5.18).

Further details of FCE remuneration disclosure and policy can be found at <http://www.fcebank.com>.

Health and safety

FCE is committed to ensuring the health, safety and welfare of its employees and, so far as is reasonably practicable, to providing and maintaining safe working conditions. FCE regards legislative compliance as a minimum and where appropriate it seeks to implement higher standards.

FCE also recognises its responsibilities towards all persons on FCE's premises, such as contractors, visitors and members of the public, and ensures, so far as is reasonably practicable, that they are not exposed to risks to their health and safety.

FCE operates a health and safety governance model tailored to meet FCE's specific business needs and health and safety risk profile.

The Executive Committee operates a management system which tracks incidents and actions and promotes best practice in health and safety throughout the organisation including regular safety walks to supplement local management vigilance.

The Board of Directors receive and review an annual report on health and safety performance from the Chair of the Health and Safety Committee.

Other business review information

Interest of management in certain transactions

During and at the end of the 2011 financial year, none of the Company's Directors had a material financial interest in any transaction (nor in any proposed transaction) in relation to the Group's business

Payments to suppliers

The Company has detailed procedures for the purchasing of goods and services. Each branch/subsidiary/office is responsible for agreeing and notifying terms of payment to suppliers as part of the purchase commitments process. Terms of payment vary by country or within a country. The Company considers that it has complied with the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

The ratio, expressed in days, between the amounts owed by the Company to trade creditors at the end of the year and the amounts invoiced by suppliers in the year ended 31 December 2011 is 41 days (2010: 45 days).

Changes in fixed assets

Movements in fixed assets are detailed within Note 19 'Property and equipment'.

Donations

The Company and its subsidiaries made no charitable or political donations during 2011 (2010: nil).

Post balance sheet events

For further details refer to Note 47 'Post balance sheet events'.

Environment

New vehicles – lower emissions

FCE's core business facilitates the purchase of Ford's most up-to-date models which have the latest engines – improving fuel efficiency across Europe.

Building management

FCE shares its Central Office in Warley, UK, with Ford Motor Company. A range of measures to reduce the building's impact on the environment have been introduced including the installation of a Building Management System to maximise the efficiency of the heating / cooling systems and the use of green power from wind and solar sources in Europe. FCE's offices across Europe also make efforts to enhance their environmental efficiency and benefit from cost savings due to reduced energy consumption.

Paper reduction

FCE has taken positive action to reduce the amount of paper it uses in its daily work by enhancing key applications to reduce the number of pages that need to be printed. In addition, there is an increased use of web-based inquiries and electronic reports within these applications.

Marketing

Working with Ford Motor Company, FCE is able to provide customers with a number of marketing offers that reward environmentally sustainable vehicle choices. In France, for example, Ford Business Partner has included a facility that helps drivers to monitor their fuel consumption, the reduction of which is beneficial to customers (minimising costs) and to the environment (minimising pollution).

Board of Directors

Current composition of the Board of Directors

<i>Chairman</i>	T Murphy	<i>Non-Executive Director</i>	C A Bogdanowicz-Bindert
<i>Managing Director, Britain</i>	J Coffey	<i>Non-Executive Director</i>	A K Romer-Lee
<i>Executive Director, Finance Director</i>	P Kiernan	<i>Non-Executive Director</i>	S Taverne
<i>Executive Director, Marketing, Sales and Brand</i>	B B Silverstone	<i>Non-Executive Director</i>	J Callender
<i>Executive Director, Global Operations, Technology and Risk Director</i>	R N Rothwell		
	T Schneider		
	J Noone		

Secretary J Totsky

Director biographies

Mrs Bogdanowicz-Bindert, Non-Executive Director, is a Non-Executive Director of McBride plc. Previously a Non-Executive Director of Bank BPH, PBK Bank and Bank Gdansk before which she worked in various senior positions at Lehman Brothers and the International Monetary Fund. Mrs Bogdanowicz-Bindert was appointed to the Board of Directors on 1 September 2005.

Mr Callender, Non-Executive Director, is a Non-Executive Director of Motability plc and Aldermore Bank plc, and is the Non-Executive Chairman of ANZ Bank Europe Ltd. Previously he held a number of senior roles with Barclays plc including Chief Executive of Barclays Mercantile as well as a number of other Non-Executive Directorships. Mr Callender was appointed to the Board of Directors on 24 March 2011.

Mr Coffey, Managing Director, Britain, was Executive Director, Global Operations and Technology immediately prior to his present appointment. Having joined FCE in 1980 he has held various other senior management posts with FCE in Europe since then including Director Central and Eastern Sales Operations and New Markets and Location Manager Greece. Mr Coffey was appointed to the Board of Directors on 1 August 2002.

Mr Kiernan, Executive Director, Finance, was Finance Director for Ford of Britain prior to taking up his current appointment. Mr Kiernan qualified as a Chartered Accountant before joining Ford Motor Company in 1992, since when he has held various senior positions in Ford's operations in Germany and the USA. Mr Kiernan was appointed to the Board of Directors on 1 November 2011.

Mr Murphy, Chairman FCE, was Executive Director, Global Operations and Technology and Risk, immediately prior to his present appointment. Having joined Ford Credit in 1982 he has held various other senior management posts including Director, Irving Business Centre and Controller, Ford Credit Europe. Mr Murphy was appointed to the Board of Directors on 25 March 2009. Mr Murphy was appointed Chairman on 8 December 2010.

Mr Noone, President at Ford Credit, was President at Ford Credit International immediately prior to his present appointment. Having joined Ford Credit in 1972 he has held various other senior management posts since then in both the U.S. and in Europe including Executive Vice President at Diversified and Major Accounts at Ford Credit. Mr Noone was appointed to the Board of Directors on 1 January 2004.

Mr Romer-Lee, Non-Executive Director, is a Non-Executive Director of Sonali Bank (UK) Limited and former partner of PricewaterhouseCoopers LLP, where he was Head of Financial Services, Central & Eastern Europe and with whom he previously held various other senior management posts. Mr Romer-Lee was appointed to the Board of Directors on 1 October 2006.

Mr Rothwell, Executive Director, Marketing Sales and Brand, was Managing Director, Germany, immediately prior to his present appointment. Having joined Ford Motor Company Limited in 1979 and FCE in 1995 he has held various other senior management posts in Europe since then including Strategy Director at FCE, and Managing Director at Ford Credit South Africa. Mr Rothwell was appointed to the FCE Board on 1 October 2004.

Mr Schneider, Executive Director, Global Operations, Technology and Risk, was previously Vice President, Global Risk Management, Ford Motor Credit Company. Prior to that appointment he held a number of senior positions at Ford Credit. Mr Schneider was appointed to the Board of Directors on 27 January 2011.

Mr Silverstone, Chief Operating Officer, Ford Credit, was President, Marketing and Sales, immediately prior to his present appointment. Having joined FCE in 1979 he has held various other senior management posts including Chairman at FCE, Vice President, Marketing for Ford Credit North America and Regional President of Ford Credit Asia Pacific Credit Operations.

Mr Silverstone was appointed to the FCE Board of Directors on 25 July 2001 and was Chairman of the Board between 21 July 2006 and 8 December 2010.

Board of Directors

Director biographies continued

Ms Taverne, Non-Executive director, is a trustee of the BBC, a Non-Executive Director of Nationwide Building Society, a Trustee of the Consumer Credit Counselling Service and the Design Museum and Chair of Gingerbread. She was formerly a Director of Imperial College London, Managing Director of the British Museum, Director of Strategy at Pearson plc, and Finance Director of the Independent. Ms Taverne was appointed to the Board of Directors on 1 April 2008.

Changes to the Board of Directors

Mr Callender was appointed to the Board of Directors on 24 March 2011.

Mr Schneider was appointed to the Board of Directors on 27 January 2011.

Mr Jepson, Executive Director, Finance and Strategy retired from the Board on 31 December 2011.

Ms Totsky was appointed as Company Secretary on 1 September 2011.

Mr Robinson retired from the Board on 24 March 2011.

Mr Kiernan was appointed to the Board of Directors on 1 November 2011.

Annual general meeting

The Annual General Meeting will be held on 22 March 2012 immediately after the conclusion of the Board meeting approving these financial statements. In accordance with the Articles of Association all Directors retire and, being eligible, will each offer themselves for reappointment.

Attendance at Board and Committee meetings in 2011

	Board of Directors	Audit Committee	Remuneration Committee
Meetings held	7	4	2*
Attendance			
C A Bogdanowicz-Bindert	5/7	4/4	2/2
J Callender	6/6	2/3	2/2
J Coffey	5/7	1/1	n/a
P Jepson	7/7	4/4	n/a
P Kiernan	1/1	1/1	n/a
T Murphy	7/7	1/1	2/2
J Noone	3/7	n/a	n/a
M Robinson	1/1	1/1	n/a
A K Romer-Lee	7/7	4/4	2/2
R N Rothwell	6/7	n/a	n/a
T Schneider	7/7	1/1	2/2
B B Silverstone	5/7	n/a	n/a
S Taverne	6/7	4/4	2/2

*Committee only formed in October 2011. Typical year would have 4 meetings per year.

Key governance principles

General

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

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

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

The Board of Directors

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

- to promote the success of the Company for the benefit of its members as a whole,
- provide leadership to the Company, particularly relating to corporate governance, corporate social responsibility and corporate ethics,
- approve the Company's strategic objectives,
- ensure that the necessary financial and other resources are made available to the management to enable them to meet those objectives,
- operate within a framework of effective controls which enables the assessment and management of principal risks, and
- ensure customers are treated with fairness and respect

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

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

The Board reviews the Group's commercial strategy, business, funding and liquidity plans, annual operating budget, capital structure and dividend policy and statutory accounts.

The Board also reviews the financial performance and operation of each of the Company's businesses and other business reports and presentations from senior management.

The Board is responsible for the appropriate constitution of Committees of the Board and reviews their activities and terms of reference as part of an annual review of corporate governance.

Within the financial and overall objectives for the Company, the management of the Company is delegated to Directors and management through the Chairman.

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

All Directors are equally accountable under the law for the proper stewardship of the Company's affairs. The Directors have access to the advice and services of the Company Secretary and can obtain independent professional advice at the Company's expense in furtherance of their duties, if required. A register of conflicts is maintained to ensure that the management of conflicts is operated effectively.

In 2011, the Board held seven Board meetings, including one Extraordinary Board Meeting dedicated solely to FCE's Individual Liquidity Adequacy Assessment (ILAA), at which the following subjects were discussed:

Strategy – the Board together with FCE's senior management held an off-site meeting at which the Company's strategy was reviewed taking into consideration the external economic environment, Ford Motor Company's strategy, and the need of the Company to create shareholder value.

Business Plan – the Board reviewed the five-year forecasts, the annual budget and the business plan which are designed to support the Company's strategy.

Risk Appetite Statements, Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment (ILAA) – the Board reviewed, challenged and approved FCE's Risk Appetite Statements, ICAAP and ILAA.

Key governance principles

Remuneration Committee – at August 26 2011 meeting the Board approved the establishment of the Remuneration Committee

Special Attention Markets – in light of challenging external environment, the Board conducted in-depth reviews of FCE's operations in Greece, Italy and Spain to ensure that the risks facing the locations are consistent with FCE's Risk Appetite and accurately reflected in FCE's ICAAP and ILAA

Non-Executive Directors (NEDs)

The NEDs fulfil key roles in corporate and regulatory accountability. The Board considers all the current NEDs to be independent because they have no material business relationship with the Company (either directly or as a partner, shareholder or officer of an organisation that has a relationship with the Company) and they neither represent the sole shareholder nor have any involvement in the day to day management of the Company or its subsidiaries.

As such they bring objectivity and independent judgement to the Board, which complements the Executive Directors' skills, experience and detailed knowledge of the business. Moreover they play a vital role in the governance of the Company through their membership of the Audit Committee and the Remuneration Committee.

Each NED is provided, upon appointment, with a letter setting out the terms of his or her appointment including membership of the Audit Committee and the Remuneration Committee, the fees to be paid and the time commitment expected from the Director. The letter also covers such matters as the confidentiality of information and reference to Ford's Directors and Officers Liability Insurance. The letters of appointment of NEDs are terminable on one month's notice by either party.

All NEDs are appointed to the Audit Committee and the Remuneration Committee. The NEDs do not serve on any other Board Committee.

The appointment of a NED is for an initial term of 3 years, renewable for a second term of up to 3 years on mutual agreement. In certain circumstances a further term of up to 3 years may be agreed. FCE's Articles of Association require that all Directors retire and stand for re-appointment at each annual general meeting.

Each year the NEDs hold a meeting with the Chairman to discuss Executive Director succession planning, corporate governance and any other relevant issues. The Board reviews the number of Executive Directors and NEDs periodically to maintain an appropriate balance for effective control and direction of the business.

The Code recommends the appointment of a Senior Independent NED and Mr Romer-Lee was appointed to this post on 1 January 2008. The role of the Senior NED is to chair the Audit Committee and to take a lead role with the other NEDs, representing collective views to the Chairman, Board or Audit Committee and to representatives of the Company's shareholder.

The role of all the NEDs is to

- review and give an objective opinion on the Company's financial reporting including relevant best practice,
- maintain effective working relationships with the FSA and FCE's auditors,
- provide an objective view of the management of the business,
- provide an objective insight into the strategic direction of the Company and an advisory role on intended strategic actions and potential implications for the business,
- review the application of financial reporting and understand the Company's financial position and constructively challenge its effective management, and
- provide other Board members with different perspectives on strategic and other issues facing the Company.

The NEDs meet from time to time in the absence of FCE's management, and the Senior NED normally presides at such meetings.

Selection of Directors

Specialist executive recruitment agencies may be employed to find suitable NEDs. In addition, direct appointments are made where specific skills and experience are needed, and FCE may consult its auditors or other professional advisers on appropriate candidates when specialist financial skills are required. Formal interviews are held with senior Company management before a preferred candidate meets other members of the Board including all the current NEDs.

Executive Directors (including the Chairman) are selected through a Ford Credit Personnel Development Committee process. Succession plans for Directors and other senior appointments are reviewed with senior representatives of the Company's parent and the NEDs. Proposals for all Director appointments are then submitted for corporate approval both by Senior Management of the shareholder and by the Ford Corporate Governance Committee before being submitted to the Company's Board of Directors for formal legal approval.

FCE Bank's directors are FSA Approved Persons and new appointments are subject to FSA's approval.

Key governance principles

Training of Directors

Consideration is given to the training needs of Directors on their appointment to the Board, and new NEDs benefit from a comprehensive induction to the Company's business, risk management and regulatory environment

Also there is at least one senior management financial review and strategy meeting held each year to which the NEDs are invited, and a training day is available as required for the NEDs where topical issues and developments can be discussed. From time to time, Ford develops training programmes for various aspects of Directors' duties and responsibilities, corporate governance and regulatory and general compliance matters

Evaluation and remuneration of Directors

Each Executive Director is evaluated by FCE's performance review process and remuneration is determined in line with the global compensation policy of Ford Credit and Ford. Senior representatives of Ford Credit evaluate the performance of the Chairman

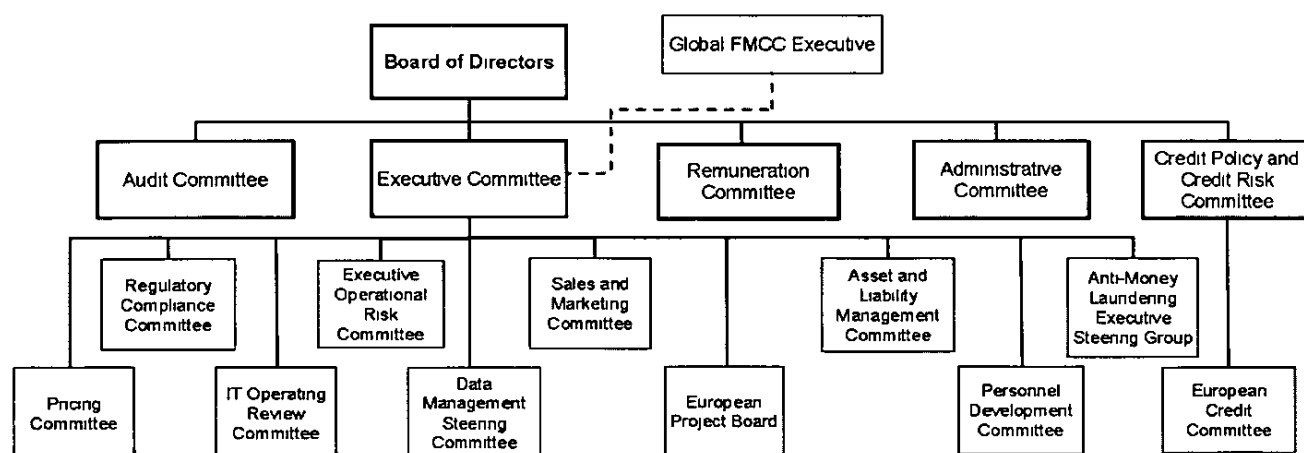
NEDs receive a flat fee for their services. The Senior NED receives a higher fee to reflect his additional responsibilities. The levels of both fees are reviewed periodically and the fee level is approved by senior representatives of Ford Credit. The NEDs do not receive any further remuneration or participate in any incentive arrangements

Key governance principles

Committees of the Board

Five Committees report directly into the Board. Each of the Committees has specific delegated authority and detailed terms of reference which are reviewed annually with a report on the activities of each Committee presented to each meeting of the Board of Directors. FCE reviews the composition of the Committees regularly to ensure that there is an appropriate balance and a good mix of skills and experience. FCE also considers the need to refresh the Committees.

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



Audit Committee

Details of the Audit Committee and its work can be found on pages 35, 36 and 37.

Administrative Committee

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

- the review and approval of the terms and conditions of FCE's borrowings and other treasury related matters in line with applicable policy statements established by the Board of Directors from time to time
- consideration and approval of other day-to-day business matters delegated to it for which formal deliberation and/or documentation is legally required to evidence approval rather than approval under general management delegated authorities

The membership of the Administrative Committee comprises all statutory Directors of the Company but excludes Mr Noone, Mr Silverstone and the NEDs, with any two Directors constituting a quorum. The Administrative Committee has no formal meeting schedule and meets as required.

The Remuneration Committee

The Remuneration Committee, which comprises of NEDs, the Chairman and the Executive Director, Operations and Risk, established FCE Remuneration Policy which is consistent with and promotes effective risk management in accordance with the requirements of the FSA Remuneration Code. The Committee is responsible for determining and agreeing with the Board broad policy for remuneration of FCE's Code Staff as defined in the FSA Remuneration Code.

Credit Policy and Credit Risk Committee

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

Key governance principles

Credit Policy and Credit Risk Committee continued

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

Executive Committee

The Executive Committee ('EC') usually chaired by the FCE Chairman, is responsible for the development of Group's strategy and monitoring Group's performance against its strategy and business plan. The Executive Committee reports to the Board at each of the full Board meetings held during the year. The Executive Committee has thirteen members, five of whom are members of the Board of Directors.

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

The EC consists of individuals responsible for the key components of the business, British, German and European markets, as well as pan-European central functions such as Risk Management, Information Technology, Legal & Compliance and Strategy & Finance. Either the Chairman or the Executive Director Finance are required in attendance as one of seven members needed to constitute a quorum. The EC meets monthly and held 12 meetings during 2011.

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

- The Regulatory Compliance Committee is responsible for monitoring and managing regulatory compliance risk that FCE faces across business lines, product areas and geographies. In 2011, FCE made significant enhancements to its regulatory compliance risk framework by improving the quality of management information and implementing comprehensive compliance monitoring plan. The Committee monitors and evaluates regulatory and legislative changes and determines the Company's response or changes needed.
- The Information Technology Operating Review Committee monitors, aligns and resolves plans and priorities across FCE to support key information technology related projects and initiatives.
- The Executive Operational Risk Committee has the overall responsibility for reviewing and monitoring major operational risks and for promoting the use of sound operational risk management across FCE. The Committee has three sub-committees: Business Continuity Steering Committee, Sub-Operational Risk Committee and Operation Identified Comment Committee.
- The Asset and Liability Management Committee oversees the funding plan and liquidity management for FCE. The Committee has two sub-committees: Securitisation Programme Board and Supervisory Sub-Committee.
- The Sales and Marketing Committee facilitates regular and timely information exchanges between business units and functional areas covering sales, marketing and operational matters.
- The Data Management Steering Committee provides direction and makes decisions on company-wide data management matters to ensure a co-ordinated input to process and IT application development to meet business requirements through data solutions that are consistent with strategic priorities. The Committee provides input and direction to FCE control functions on data integrity, protection, transfer and breaches.
- The Pricing Committee reviews and approves pricing strategies and policies on a national, regional and European basis.
- The European Project Board oversees the management of FCE's strategic projects. This sub-committee meets on a monthly basis to review, approve and prioritise large / strategic projects.
- The Personnel Development Committees drive personnel development and career and vacancies planning. The sub-committees are comprised of members of management, who are assisted by Human Resources representatives.
- The Anti-Money Laundering Executive Steering Group oversees compliance with the provisions of the relevant European Community Money Laundering and related directives as applied to those markets in which FCE operates.

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

Key governance principles

Accountability and audit

Financial reporting

In the Directors' Report the Board seeks to provide a detailed understanding of the business of the Group, together with a balanced and understandable assessment of FCE's position and prospects

Internal control

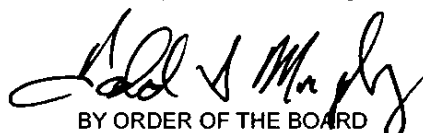
Further information on the internal control environment can be found in the 'Audit Committee Report' which commences on page 35

Going concern

The Directors are confident, on the basis of current financial projections and facilities available, that the Company and FCE have adequate financial resources to continue in operation for the foreseeable future. For this reason, the Directors have concluded that there are no material uncertainties that lead to significant doubt upon the entity's ability to continue as a going concern and therefore continue to adopt the going concern basis in preparing the financial statements

Investor relations

The Company's website provides potential investors with information about the Company, including recent annual and interim financial statements, Basel II Pillar 3 disclosures, investor presentations and governance matters



BY ORDER OF THE BOARD
Todd S Murphy
Chairman, FCE Bank plc
22 March 2012

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

Audit Committee report

This report describes the role of the Audit Committee ('AC') and its compliance with the requirements of the UK Corporate Governance Code (the 'Code') where appropriate for a wholly owned subsidiary

Terms of reference

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

Membership and appointment

There is no limitation on the term of appointment to the AC. During 2011 the AC was chaired by Mr Romer-Lee, and met four times. Membership of the AC exclusively comprises all the NEDs. The quorum for the AC is any two members.

FCE considers that all four current members of the AC are independent for the purposes of the Code. The members bring wide-ranging financial, commercial and management experience to the work of the AC and their biographical details are set out on page 27.

The Board is confident that the collective experience of the AC members enables them, as a group, to act as an effective Audit Committee. The AC also has access to the financial expertise of the Group and its auditors, internal and external, and can seek further professional advice at the Company's expense if required. The Board considers that the current AC Chairman, in particular, qualifies as having recent and relevant financial experience to bring to the deliberations of the AC as required by the Code.

Meetings

PricewaterhouseCoopers LLP ('PwC'), FCE's external auditors, and representatives from Ford's General Auditors Office ('GAO') together with the Executive Director Finance, the Director Legal Affairs and Company Secretary attend meetings under a standing invitation. The Company Secretary is Secretary to the AC. In addition, the AC often requires other Directors, managers and staff to attend and agree with audit/review actions in response to the AC enquiries and recommendations.

The NEDs also held private meetings with the external auditors during the year. The Committee Chairman reports regularly to the Board on AC's activities and the minutes of the AC meetings are circulated to the Board of Directors.

Work of the Committee

The AC carries out its programme of work in accordance with a calendar of actions at four programmed meetings held each year in March, June, August and November or adjacent months as outlined below. The AC also receives regular reports on significant and unusual events at every meeting. In addition, other significant matters are raised as appropriate and necessary.

- March – Review draft Annual Report and Accounts, management letter and external auditors' report and audit fees, which includes consideration of major judgmental areas, significant adjustments and the appropriateness of the going concern assumption before the statements are approved by the Board.
- June – Review the Company's capital and liquidity adequacy reporting, planning and implementation, annual review of the ICO, incorporating audit review and future plans and progress against its own internal business plan, functional developments and key performance measures, and an annual review from FCE's external auditor including current accounting and financial reporting matters and issues arising and its audit plan and scope.
- August – Review draft Interim Accounts for the first six months of the year and management letter and external auditors' report, which includes consideration of major judgmental areas and significant adjustments before the statements are considered and approved by the Board, and overseeing the process of monitoring compliance and regulatory matters including Anti-Money Laundering through an annual review by FCE's Head of Compliance.
- December – Review Accounting policies and disclosure changes for the next annual accounts including major changes in accounting policies and practices, and consider the annual review of GAO to include overseeing the effectiveness of internal control over reporting and operations and specifically the review of the internal audit charter, update on risk assessment and internal audit reviews and future plans, compliance with auditing standards and progress against its internal audit business plan, functional developments and key performance measures.

Audit Committee report

Work of the Committee continued

The audit plan and scope for both PwC and the GAO sets out details of the areas to be covered and how the audit is to be conducted. The AC Chairman meets periodically with the external auditors and GAO to discuss progress on the audit and the major points to arise, and has the opportunity to assess the effectiveness of the process. The AC is also able to assess the effectiveness of the auditors and the process through reports made to the Committee by the independent auditors. In addition, prior to each of the AC meetings convened to approve annual and interim financial results, members hold a private meeting with the external auditors.

External auditors, their work and non-audit related services

PwC conducts audits of FCE's financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). PwC provides external audit opinions on FCE's financial statements.

The appointment and re-appointment of the external auditor for the Ford group of companies is reviewed at parent company level. However, in accordance with its current terms of reference, the AC receive annual written confirmation that a review had been undertaken by the Ford Audit Committee of PwC's continued independence, performance, significant relationships and compliance with relevant ethical and professional guidance. In addition, the AC reviews PwC's audit plan, its scope and cost effectiveness and the audit fee. PwC's audit fees for 2011 are outlined in Note 9 'Profit before tax' on page 62 of these financial statements.

To help ensure that the auditors' independence and objectivity are not prejudiced by the provision of non-audit services, the AC has agreed that the external auditors should be excluded from providing management, strategic or Information Technology consultancy services and all other non-audit related services, unless the firm appointed as external auditor is

- the only provider of the specific expertise/service required, or
- the clear leader in the provision of the service and is able to provide that service on a competitively priced basis

As auditors, PwC will undertake work that they must or are best placed to complete. This includes tax-related work, formalities related to borrowings, regulatory reports or work in respect of acquisitions and disposals.

General auditors office

Ford's General auditors office (GAO) is fully independent from FCE, its coverage is based on the relative risk assessment of each 'audit entity', which is defined as a collection of processes and systems that are closely related

The GAO's mission is to provide objective assurance and advisory services to management and the Board of Ford and to the Company's AC in order to improve the efficiency and effectiveness of Company operations and assist the Company in achieving its objectives through systemic and disciplined auditing.

Internal control office

ICO is the department within FCE that delivers control consultancy, process reviews, special investigations, due diligence, advice on systems' controls and control training across all locations. ICO's experience across operations, accounting and systems enables informed operational reviews, and sharing of best practice. This ensures a high level of quality is maintained within FCE's processes, customer and dealer services and financial products. The department has created and delivered training in ongoing controls, which includes learning points derived from audits, control reviews and self-assessment processes. This matches industry leading-edge practices to assist management in early identification of potential control risks which is an essential element of the process to ensure compliance with the US Sarbanes-Oxley Act.

ICO coordinates the Modular Control Review Programme (MCRP), which has been designed, implemented and revised over several years to embed the assessment of risk and opportunity across the Group. The MCRP provides the means for the management of each location or activity to continually review that controls are designed and operating effectively within their operation. The performance of regular and appropriate checks embeds sound governance principles in key processes. The MCRP facilitates high levels of control self-assessment as part of good business practice. It also embodies the principles established by the UK's Turnbull Committee on achieving the standards in the Combined Code of Corporate Governance. The MCRP was modified for, and provides a key structure in FCE's compliance with the US Sarbanes-Oxley Act.

ICO oversees the Operational Identified Comments (OIC) Committee, a sub-committee of the Executive Operational Risk Committee. OICs are process and procedural improvement opportunities discovered through self-assessment processes, audits or other external reviews, or in the course of day-to-day operations. The OIC Committee is responsible for monitoring and validating OIC corrective action plans. The Executive Operational Risk committee receives routine and regular reports from both ICO and the OIC Committee. Occasionally, in light of significant developments or events, the Executive Operational Risk committee may commission ICO to undertake ad-hoc reviews, or special investigations.

Audit Committee report

Whistle-blowing procedure

The Company has established a whistle-blowing procedure for the confidential and anonymous submission by employees of concerns regarding accounting, internal controls or auditing matters. A report on any such incidents reported is presented to each Audit Committee meeting, including details of any actions taken to deal with the matters raised. No issues material to FCE were dealt with by the Audit Committee during the reporting year.



BY ORDER OF THE AUDIT COMMITTEE

Alex K Romer-Lee

22 March 2012

Directors' responsibility for financial statements

The following statement should be read in conjunction with the Independent Auditors' Report

The Directors are responsible for preparing the Annual Report and the Company and Group's financial statements in accordance with applicable law and regulations

The Directors are required by law to prepare the Company and Group's financial statements for each financial year in accordance with the Companies Act 2006, International Financial Reporting Standards as adopted by the European Union and as regards to the Group's financial statements, Article 4 of Commission Regulation (EC) Number 1606/2002 (the "IAS Regulation")

The Directors are required to ensure that the Company and Group's financial statements give a true and fair view of the assets, liabilities and financial position of the Company and Group and of the profit or loss of the Group for that period

In preparing the Company and Group's financial statements for the year ended 31 December 2011, the Directors also are required to

- select suitable accounting policies and apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- confirm that applicable accounting standards have been followed, and
- confirm that the financial statements have been prepared on the going concern basis

The Directors confirm that they have complied with the above requirements in preparing the financial statements for the year ended 31 December 2011

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group, and for taking reasonable steps for the prevention and detection of fraud and other irregularities

Each of the Directors, whose names and functions are listed on page 27, confirms that, to the best of their knowledge

- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group, and
- The Directors' Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces

Disclosure of information to external auditors

Each of the Directors, who is in office at the time when FCE's financial statements are approved, confirms that so far as they are aware, there is no relevant audit information of which the Company's external auditors are unaware and each such Director has taken all the steps that he/she ought reasonably be expected to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's external auditors are aware of that information. This information is given and should be interpreted in accordance with the provisions of Section 418 Companies Act 2006

Website

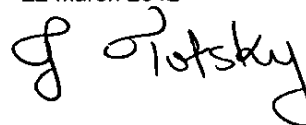
A copy of the financial statements of the Company will be posted on the FCE website (www.fcebank.com). The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the website. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to FCE's financial statements since they were initially presented on the website. Legislation in the UK governing preparation and dissemination of financial statements may differ from legislation in other jurisdictions

External auditors

In accordance with Section 489 Companies Act 2006, a resolution proposing the re-appointment of PricewaterhouseCoopers LLP as external auditors will be submitted to the Annual General Meeting to be held on 22 March 2012

BY ORDER OF THE BOARD

Joanna Totsky
Company Secretary
22 March 2012



Independent auditors' report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FCE BANK PLC

We have audited the Company and Group financial statements (the "financial statements") of FCE Bank plc for the year ended 31 December 2011 which comprise the Company and Group Balance sheets, the Group Statement of comprehensive income, the Company and Group Statement of cash flow, the Company and Group Statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 38, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's and Group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report of FCE Bank plc to identify material inconsistencies with the audited financial statement. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

The maintenance and integrity of the FCE Bank plc website is the responsibility of the Directors, the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Company's and of the Group's affairs as at 31 December 2011 and of the Group's profit and Company's and Group's cash flows for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Craig Stafford (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 March 2012

Consolidated statement of comprehensive income

For the year ended 31 December	Notes	Group	
		2011 £ mil	2010 £ mil
Interest income		£ 856	£ 893
Interest expense		(512)	(539)
NET INTEREST INCOME	2	£ 344	£ 354
Fees and commissions income		£ 63	£ 70
Fees and commissions expense		(13)	(8)
NET FEES AND COMMISSIONS INCOME	3	£ 50	£ 62
Other operating income	4	176	148
TOTAL INCOME		£ 570	£ 564
Impairment losses on loans and advances	16	£ (3)	£ (9)
Operating expenses	5	(201)	(215)
Depreciation of property and equipment	19	(174)	(100)
Fair value adjustments to financial instruments	7	5	34
Gain / (loss) on foreign exchange	8	(24)	(41)
Share of profit of a jointly controlled entity	23	6	6
PROFIT BEFORE TAX	9	£ 179	£ 239
Income tax expense	10	(56)	(78)
PROFIT AFTER TAX AND PROFIT FOR THE FINANCIAL YEAR		£ 123	£ 161
Translation differences on foreign currency net investments		(49)	(61)
Translation differences on foreign currency investments in a jointly controlled entity		(1)	2
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDING 31 DECEMBER		£ 73	£ 102

The accompanying 'Notes to the consolidated financial statements' are an integral part of these financial statements

Balance sheets

		Company		Group	
As at 31 December		2011	2010	2011	2010
	Notes	£ mil	£ mil	£ mil	£ mil
ASSETS					
Cash and advances	11	£ 2,145	£ 1,292	£ 2,767	£ 2,094
Marketable securities	12	-	223	-	223
Derivative financial instruments	13	155	274	163	276
Other assets	14	733	1,523	297	251
Net loans and advances not subject to securitisation		£ 2,035	£ 2,571	£ 2,282	£ 2,845
Net loans and advances subject to securitisation	18	7,529	7,973	7,529	7,973
Total net loans and advances to customers	15	£ 9,564	£ 10,544	£ 9,811	£ 10,818
Property and equipment	19	235	152	235	153
Income taxes receivable	20	16	51	16	52
Deferred tax assets	21	73	74	84	87
Goodwill and other intangible assets	22	161	161	13	13
Investment in a jointly controlled entity	23	-	-	46	45
Investment in group undertakings	24	339	339	-	-
TOTAL ASSETS		£ 13,421	£ 14,633	£ 13,432	£ 14,012
LIABILITIES					
Due to banks and other financial institutions not in respect of securitisation		£ 210	£ 429	£ 341	£ 549
Due to banks and other financial institutions in respect of securitisation	18	1,028	1,013	4,064	3,224
Total due to banks and other financial institutions	25	£ 1,238	£ 1,442	£ 4,405	£ 3,773
Corporate deposits	26	50	49	50	49
Due to parent and related undertakings	27	5,424	5,382	821	540
Derivative financial instruments	13	53	106	85	158
Debt securities in issue not in respect of securitisation		3,648	4,187	3,657	4,187
Debt securities in issue in respect of securitisation	18	-	-	1,442	1,872
Total Debt securities in issue	28	£ 3,648	£ 4,187	£ 5,099	£ 6,059
Other liabilities	29	399	489	409	506
Income taxes payable	20	21	12	21	12
Deferred tax liabilities	21	20	29	21	30
Subordinated loans	30	220	287	220	287
TOTAL LIABILITIES		£ 11,073	£ 11,983	£ 11,131	£ 11,414
SHAREHOLDERS' EQUITY					
Ordinary shares	31	614	614	614	614
Share premium	31	352	352	352	352
Retained earnings		1,382	1,684	1,335	1,632
TOTAL SHAREHOLDERS' EQUITY		£ 2,348	£ 2,650	£ 2,301	£ 2,598
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		£ 13,421	£ 14,633	£ 13,432	£ 14,012

The accompanying 'Notes to the consolidated financial statements' are an integral part of these financial statements

The financial statements on pages 38 to 126 were approved by the Board of Directors on 22 March 2012 and were signed on its behalf by

Todd Murphy
Chairman

Paul Kiernan
Executive Director, Finance

Statements of cash flows

		Company		Group	
		2011	2010	2011	2010
	Notes	£ mil	£ mil	£ mil	£ mil
Cash flows from operating activities					
Cash from operating activities	45	£ 816	£ 1,254	£ 562	£ 1,334
Interest paid		(646)	(520)	(607)	(505)
Interest received		857	889	860	891
Income taxes paid		(16)	(71)	(18)	(73)
Net cash from/(used in) operating activities		£ 1,011	£ 1,552	£ 797	£ 1,647
Cash flows from investing activities					
Purchase of marketable securities		£ -	£ (493)	£ -	£ (493)
Proceeds from sale of marketable securities		223	258	223	261
Purchase of property and equipment		(7)	(4)	(7)	(5)
Proceeds from sale of property and equipment		5	3	5	3
Investment in other intangibles		(5)	-	(5)	-
Dividend from jointly controlled entity		-	-	4	-
Net cash from/(used in) investing activities		£ 216	£ (236)	£ 220	£ (234)
Cash flows from financing activities					
Proceeds from debt securities and due to banks and other finance institutions		£ 3,087	£ 1,313	£ 6,379	£ 3,689
Repayments of debt securities and due to banks and other finance institutions		(3,452)	(2,102)	(6,747)	(4,875)
Proceeds of funds provided by parent and related undertakings		339	103	339	103
Repayment of funds provided by parent and related undertakings		(212)	(398)	(219)	(190)
Net increase/(decrease) in short term borrowings		196	(77)	274	(36)
Net increase in corporate deposits		1	-	1	-
Net cash inflow/(outflow) on derivative financial instruments		99	(35)	76	(117)
(Increase) in Central bank deposits and other deposits in support of European Investment Bank loans		(89)	(47)	(89)	(47)
Decrease in Central bank deposits and other deposits in support of European Investment Bank loans		185	57	185	57
Dividends paid		(370)	(390)	(370)	(390)
Net cash from/(used in) financing activities		£ (216)	£ (1,576)	£ (171)	£ (1,806)
Effect of exchange rate changes on cash and cash equivalents		£ (67)	£ (10)	£ (83)	£ (33)
Net increase/(decrease) in cash and cash equivalents		£ 944	£ (270)	£ 763	£ (426)
Cash and cash equivalents less overdrafts at beginning of period		£ 1,125	£ 1,395	£ 1,926	£ 2,352
Cash and cash equivalents less overdrafts at end of period		£ 2,069	1,125	2,689	1,926

Statements of changes in equity

Group	Share capital £ mil	Share premium £ mil	Profit and loss reserve £ mil	Translation reserve £ mil	Total retained earnings £ mil	Total £ mil
Balance at 1 January 2010	£ 614	£ 352	£ 1,473	£ 447	£ 1,920	£ 2,886
Profit for the year	£ -	£ -	£ 161	£ -	£ 161	£ 161
Translation differences	-	-	-	(59)	(59)	(59)
Total comprehensive income for the year ended 31 December 2010	£ -	£ -	£ 161	£ (59)	£ 102	£ 102
Dividend paid	-	£ -	£ (390)	£ -	£ (390)	£ (390)
Balance at 31 December 2010 / 1 January 2011	£ 614	£ 352	£ 1,244	£ 388	£ 1,632	£ 2,598
Profit for the year	£ -	£ -	£ 123	£ -	£ 123	£ 123
Translation differences	-	-	-	(50)	(50)	(50)
Total comprehensive income for the the year ended 31 December 2011	£ -	£ -	£ 123	£ (50)	£ 73	£ 73
Dividend paid	£ -	£ -	£ (370)	£ -	£ (370)	£ (370)
Balance at 31 December 2011	£ 614	£ 352	£ 997	£ 338	£ 1,335	£ 2,301

Company	Share capital £ mil	Share premium £ mil	Profit and loss reserve £ mil	Translation reserve £ mil	Total retained earnings £ mil	Total £ mil
Balance at 1 January 2010	£ 614	£ 352	£ 1,593	£ 425	£ 2,018	£ 2,984
Profit for the year	£ -	£ -	£ 118	£ -	£ 118	£ 118
Translation differences	-	-	-	(62)	(62)	(62)
Total comprehensive income for the year ended 31 December 2010	£ -	£ -	£ 118	£ (62)	£ 56	£ 56
Dividend paid	-	£ -	£ (390)	£ -	£ (390)	£ (390)
Balance at 31 December 2010 / 1 January 2011	£ 614	£ 352	£ 1,321	£ 363	£ 1,684	£ 2,650
Profit for the year	£ -	£ -	£ 111	£ -	£ 111	£ 111
Translation differences	-	-	-	(43)	(43)	(43)
Total comprehensive income for the the year ended 31 December 2011	£ -	£ -	£ 111	£ (43)	£ 68	£ 68
Dividend paid	£ -	£ -	£ (370)	£ -	£ (370)	£ (370)
Balance at 31 December 2011	£ 614	£ 352	£ 1,062	£ 320	£ 1,382	£ 2,348

Notes to the consolidated financial statements for the year ended 31 December 2011

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1 ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below

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A Basis of Presentation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The standards applied are those issued by the International Accounting Standards Board and adopted by the European Union. The consolidated financial statements are prepared under a historical cost convention with the exception of certain financial assets and liabilities which are stated at fair value as disclosed under Note 42 'Financial assets and financial liabilities'.

As required by the Companies Act 2006 and Article 4 of the IAS Regulation, FCE files financial statements for both Company and Group accounts respectively.

- 'Company' accounts included within these consolidated financial statements comprises of FCE Bank plc, a UK registered company, and all of its European branches.
- 'Group' accounts include FCE Bank plc, a UK registered company, and all of its European branches and subsidiaries. Refer to Note 24 'Investments in group undertakings' for details of FCE's subsidiaries.

Income statement – As permitted by Section 408 of the Companies Act 2006, a separate income statement has not been presented in respect of the Company. The profit after tax of the Company is reported within the Company disclosures contained in the 'Statements of changes in equity'.

Presentation currency - The consolidated financial statements are presented in Sterling. Assets and liabilities of each entity of the Group which are denominated in foreign currencies are translated into Sterling at the exchange rates published at the balance sheet date.

Income statements and cash flows of branches and subsidiaries outside of the UK are translated into the Group's presentational currency at average exchange rates. Exchange differences arising from the application of year end rates of exchange to opening net assets of foreign branches and subsidiaries are taken to shareholder's equity, as are those differences resulting from the revaluation of the results of foreign operations from average to year end rates of exchange.

On disposal or liquidation of a foreign entity such exchange rate differences are recognised within the income statement under the caption 'Other operating income' as part of the gain or loss on sale.

Statements of cash flows - FCE has elected to produce an indirect statement of cash flow and as such will show cash flows from operating activities by adjusting profit before tax for non cash items and changes in operating assets and liabilities.

Notes to the consolidated financial statements for the year ended 31 December 2011

A Basis of presentation continued

There were no new standards effective for the financial year beginning 1 January 2011 that were subsequently adopted in the consolidated financial statements of FCE

The following interpretations and amended standards are mandatory for the financial year beginning 1 January 2011 but are either not relevant or do not have a material impact on FCE's consolidated financial statements		
Reference	Standard or Interpretation title	Effective for annual periods beginning on or after
IAS 32	Amendment to Financial instruments Presentation, on classification of rights issues	1 February 2010
IFRS 1	Amendment to First Time Adoption on financial instrument disclosures	1 July 2010
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010
IAS 24	Amendment to Related party disclosures	1 January 2011
IFRIC 14 & IAS 19	Amendment to The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2011

The following new interpretations, standards and amended standards have been issued but are not effective for annual periods beginning on 1 January 2011, and are either not relevant or are not expected to have a material impact on FCE's consolidated financial statements		
Reference	Standard or Interpretation title	Effective for annual periods beginning on or after
IFRS 1	Amendment to First Time Adoption on exemption for severe hyperinflation and removal of fixed dates	1 July 2011
IFRS 7	Amendment to Financial instruments Disclosures, for disclosures on transfer of financial assets	1 July 2011
IAS 12	Amendment to Income taxes on deferred tax accounting for investment properties	1 January 2012
IFRS 9	Financial instruments – classification of financial assets and liabilities	1 January 2015

Notes to the consolidated financial statements for the year ended 31 December 2011

B Group accounts

(i) Subsidiaries

Subsidiaries are those companies controlled directly or indirectly by the Company i.e. where it has power to govern their financial and operating policies. All subsidiaries of the Company are consolidated in the consolidated financial statements.

Subsidiaries are consolidated from the date on which control is transferred to the Group, and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of acquisition is measured at the fair value of the assets given up, shares issued or liabilities incurred at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. See policy T for the accounting policy on goodwill. Inter-company transactions, balances and income and expense on transactions between companies within the Group are eliminated.

The consolidated income statement and balance sheet include the financial statements of the Company and its subsidiary undertakings drawn up to the end of the financial year. The Company's interests in group undertakings in the Company's accounts are stated at cost less any provisions for impairment.

(ii) Branches

In addition to operating in the UK, the Company operates on a branch network in 11 other European countries and the branches are included within the Company's financial statements.

(iii) Special Purpose Entities (SPEs)

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

Neither the Company nor its officers, Directors or employees holds any equity interests in the SPEs utilised or receive any

direct or indirect remuneration from the SPEs. Also such SPEs do not own shares in the Company or shares in any FCE subsidiary or other Ford affiliates.

(IV) Joint ventures

Joint ventures (JV's) are those entities over whose activities FCE has joint control, established by contractual agreement. Interest in JV's are classified as jointly controlled entities and accounted for using the equity method of accounting. Under the equity method of accounting, the investment is initially recorded at cost and is subsequently adjusted to reflect the FCE's share of the net profit or loss of the JV within the income statement under the caption 'Share of profit in a jointly controlled entity'.

C Critical accounting estimates

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

An accounting estimate is considered to be critical if

- The accounting estimate requires assumptions to be made about matters that were uncertain at the time the accounting estimate was made, and
- Changes in the estimate are reasonably likely to occur from period to period, or use of different estimates that reasonably could have been used in the current period, and
- The accounting estimate could have a material impact on the financial statements within the next financial period.

The accounting estimates that are most important to FCE's business are

- Provision for incurred losses on loans and advances (refer to Note 16 'Provision for incurred losses') and operating lease assets (refer to Note 19 'Property and equipment'),
- Vehicle residual value provisions and depreciation rates applied for vehicles subject to operating leases (refer to Note 39 'Vehicle residual values')
- Provision for tax uncertainties (refer to Note 20 'Income taxes receivable and payable')
- Expected Average Life used when determining the carrying value of financial assets held at amortised cost

Notes to the consolidated financial statements for the year ended 31 December 2011

D Segment reporting

Operating segments are the components of an entity that management uses to make decisions about operating matters. These are identified on the basis of the internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess performance. An operating segment engages in business activities from which it may earn revenues and incur expenses for which discrete financial information is available.

For the purpose of these financial statements and in accordance with IFRS 8 'Operating segments' FCE's reportable operating segments are based around a business unit structure grouped into the various geographic locations of its operations. All segments representing 10% or more of FCE's revenue, profit before tax or assets are reported as individual reportable segments.

Allocation of costs The main costs which are required to be allocated between operating segments and the basis of allocation are as follows:

- Central staff costs are analysed by department and type of cost and allocated to the location benefiting from the service. Various allocation methods are used that ensure an equitable allocation between locations of central staff costs.
- In certain of FCE's European branches and subsidiaries funding is obtained by a mixture of local and centrally allocated funding. The costs of central funding, including derivative costs are, where possible, directly allocated to locations where transactions can be specifically identified. The costs of central funding and holding excess liquidity are allocated across locations on an annual basis to ensure an appropriate allotment of funding costs. Operational efficiencies are also obtained by pooling certain funding, and the related financing costs are allocated across locations to ensure an appropriate allotment of funding costs.

Income and expense from the allocation of intra and inter-company transactions are eliminated on consolidation.

E Net interest income

Interest income and expense is recognised in the income statement using the effective interest method.

Interest supplements and other support payments from related parties (including Ford and affiliated manufacturers) are provided at the time of purchase or origination of eligible contracts from dealers. The income is deferred on the balance sheet under the caption 'Loans and advances to customers' and is recognised in 'Interest income' using the effective interest method, over the expected term of the related receivable.

Certain loan origination fees (income) and costs (expenses) which can be directly associated to the origination of loans and advances to customers are regarded as part of the economic return on the loan and included in the loan's carrying value and deferred. The amount deferred is recognised in net interest income, using the effective interest method, over the expected term of the related receivable.

F Fees and commissions income and expense

Both fees and commissions income and expenses are recognised on an accruals basis net of any taxes payable.

Commissions and other bonuses payable to dealers which can be directly associated with the origination of financed receivables are regarded as part of the economic return of the receivables and included as part of the receivable's carrying value. The amount deferred is recognised as a reduction to interest income using the effective interest rate method over the term of the related receivable.

Commissions and other bonuses payable which cannot be directly associated with the origination of financed receivables are expensed as incurred.

G Other operating income

Other operating income includes the rentals receivable for vehicles provided under operating leases. Rental income on operating leases is credited to income on a straight-line basis.

H Employee benefits

(i) Retirement benefit obligations

The Company participates in pension schemes that share the risks between entities under common control, and there is no contractual agreement for charging the net defined benefit costs. In such cases the Company recognises a cost equal to contributions payable for the period only and discloses such schemes as 'Accounted for as defined contribution'. Contributions payable by the Company are advised by the principal company which is a related party of FCE. The net liabilities or assets relating to the scheme are not recognised in the balance sheet.

Notes to the consolidated financial statements for the year ended 31 December 2011

H Employee benefits continued

Some of FCE's branches and subsidiaries operate defined benefit pension schemes. Valuations of the pension fund assets and liabilities are completed by a professionally qualified independent actuary. Such valuations include recommendations of future rates of contributions payable into the scheme by the principal company. The funds are valued at least every three years by the actuary. The principal UK fund is valued every two years.

FCE branches that operate defined benefit plans for which Company employees are the only participants recognise the net liability or asset in the balance sheet. Actuarial gains and losses are recognised in profit and loss as they occur, together with contributions payable for the period.

For defined contribution plans, FCE pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. Once the contributions have been paid, FCE has no further payment obligations. The regular contributions constitute net periodic costs for the years in which they are due.

All costs are included within 'Operating expenses'.

(ii) Share-based payments

Under a revised long term incentive programme time-based Restricted Stock Units (RSU) are awarded to Directors and other eligible employees of FCE. Following a specified restriction period the RSU convert to shares of Ford Common Stock. The shares carry all associated rights including voting rights and the right to any dividend payments.

Grants awarded vest over a three year service period as follows:

- One year from the date of the agreement 33% of the grant will vest
- Two years from the date of the agreement an additional 33% of the grant will vest
- Three years from the date of the agreement an additional 34% of the grant will vest

The fair value of the employee services received in exchange for the grant of RSU is recognised as an expense and a corresponding increase in 'Other equity adjustments', which is part of 'Retained earnings', over the vesting period.

The total amount to be expensed over the vesting period is determined by reference to the fair value of Ford Common Stock on the grant date, excluding any non-market vesting conditions. Non-market vesting conditions are taken into account so that the amount expensed is based on the number of shares that eventually vest.

Costs of providing the grant of RSU are charged to FCE by Ford in the year granted and are recognised in 'Other equity adjustments', which is part of 'Retained earnings'.

Prior to revision of the long-term incentive programme during 2007 share options which can be exercised over Ford Common Stock, were granted to Directors and to employees of FCE. A limited number of share options have been granted since 2007. The options vest and may be exercised in instalments as follows:

- One year from the date of the agreement 33% of the shares may be exercised
- Two years from the date of the agreement an additional 33% of the shares granted may be exercised
- Three years from the date of the agreement an additional 34% of the shares granted may be exercised

The share options are accounted for on a basis consistent with that for RSU as described above.

Share based payments do not have a material impact on the financial statements of the Company or Group.

I Cash and cash equivalents and marketable securities

Cash and cash equivalents comprise of balances which have a maturity at acquisition of 90 days or less including treasury bills and other eligible bills, amounts due from other banks and petty cash.

Marketable securities comprises of treasury bills and other eligible bills which have a maturity at acquisition of greater than 90 days.

J Financial assets, financial liabilities and offsetting

FCE classifies its financial assets and financial liabilities at inception into the following categories:

• Financial assets at fair value through profit and loss

This category consists of cash and cash equivalents, marketable securities and derivative financial instruments held at fair value with changes in fair value recognised in profit and loss.

Assets in this category are measured at fair value using market rates and industry standard valuation models.

• Loans and advances

These are non-derivative assets with fixed or determinable payments that are not quoted in an active market as further described in accounting policy M.

• Financial liabilities at fair value through profit and loss

This consists of derivatives which are held at fair value, with changes in fair value recognised in profit and loss.

Notes to the consolidated financial statements for the year ended 31 December 2011

J Financial assets, financial liabilities and offsetting continued

• Financial liabilities at amortised costs

These include borrowings, corporate deposits, debt securities in issue and subordinated loans that are initially recognised at fair value. These are subsequently measured at amortised cost using the effective interest method.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a current enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis.

FCE has not classified any financial assets into the available for sale or held to maturity category.

K Derivative financial instruments and hedging

Derivatives are measured at fair value. The fair values of derivatives are calculated using market rates and industry standard valuation models. These models project future cash flows and discount the future amounts to a present value using market-based expectations for interest rates, foreign exchange rates and the contractual terms of the derivative instruments.

In certain cases, where market data is not available, FCE develops assumptions to determine fair value.

Derivatives are included in assets when the fair value is positive and in liabilities when the fair value is negative.

When a derivative contract is entered into, FCE may designate certain derivatives as a hedge of the fair value of a recognised asset or liability ('fair value' hedge).

The fair values of derivative instruments are disclosed in Note 13 'Derivative financial instruments'.

Hedge accounting

Hedge accounting is applied for derivatives only when the following criteria are met:

- formal documentation of the hedging instrument, hedged item, hedge objective, strategy and relationship is prepared at or before inception of the hedge transaction,
- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period, and
- the hedge is highly effective on an ongoing basis, as measured by re-performance of effectiveness testing on a minimum quarterly basis.

Fair value hedge accounting

Changes in the fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged item that are attributable to the hedged risk under the caption 'Fair value adjustments to financial instruments'.

When a derivative is de-designated from a fair value hedge relationship, or when the derivative in a fair value hedge relationship is terminated before maturity, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortised to the income statement over its remaining life.

Derivatives not qualifying for hedge accounting

Certain derivative transactions (referred to as non-designated in Note 13 'Derivative financial instruments'), while providing effective economic hedges under the Group's risk management policies either do not qualify for hedge accounting under the specific rules in IAS 39 'Financial instruments, recognition and measurement' or FCE elects not to apply hedge accounting. These derivatives are held at fair value and fair value gains and losses are reported in the income statement under the caption 'Fair value adjustments to financial instruments'.

L Other assets

The carrying value of 'Other assets' is stated at cost less any provision for impairment. Vehicles returned to FCE from operating lease, retail and finance leases which are awaiting resale are carried at the net book value after adjusting for any residual value provisions. Vehicles consigned to dealers on consignment financing arrangements are disclosed in Note 14 'Other assets'.

Gains and losses on disposals of Operating lease vehicles are included in the income statement under the caption 'Depreciation of property and equipment' and for vehicles returned from retail and finance lease contracts under 'Interest income'.

M Loans and advances to customers

Loans and advances to customers including finance lease receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Loans and advances to customers are initially recognised at fair value including direct and incremental transaction fees (including interest supplements and other support payments from related parties) and costs. They are subsequently valued at amortised cost, using the effective interest rate method – refer to accounting policy E 'Net interest income'.

Notes to the consolidated financial statements for the year ended 31 December 2011

N Leases

(i) Where FCE is the lessor

Finance leases – Assets purchased by customers under conditional sale agreements and leased under finance leases are included in 'Loans and advances to customer' at the gross amount receivable, less unearned finance charges. Finance income is recognised over the lease term using the net investment method so as to reflect a constant periodic rate of return in proportion to the net investment in the contract.

Operating leases – Assets leased to customers under operating leases are included in 'Property and equipment'. Income recognised in the income statement is described in accounting policy G.

ii) Where FCE is the lessee

The leases entered into by FCE are all operating leases. Operating lease rental expense is charged to the income statement within 'Operating expense' on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised in the period in which the obligation arises.

O Provision for incurred losses

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

- Delinquency in contractual payments of principal or interest (and at no later than 120 days past due),
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales),
- Breach of loan covenants or conditions,
- Initiation of bankruptcy proceedings,
- Deterioration of the borrower's competitive position,
- Deterioration in the value of collateral.

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

Following the impairment of a retail financing contract the carrying value of the loan (both 'Gross' and 'Net' as reported in Note 15 'Loans and advances to customers') is reduced to reflect the average vehicle recovery value. The average vehicle recovery value is calculated by multiplying the expected sale proceeds of the vehicle by historical vehicle recovery percentages. Following vehicle recovery and prior to vehicle resale, the carrying value of the loan is eliminated and the vehicle is recorded in 'Other Assets' at the estimated realisable value net of disposal costs. Any further recoveries for contracts previously charged off as uncollectible are written back to 'provision for incurred losses' on loans and advances to customers.

At the point a wholesale loan is considered doubtful the carrying value of the loan is reduced by the use of a specific impairment allowance for the estimated uncollectible amount. If a loan is considered doubtful for an extended period, (and at no later than 120 days), the specific impairment allowance is released and the carrying value of the loan is reduced to reflect the estimated collectable amount.

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

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

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

Notes to the consolidated financial statements for the year ended 31 December 2011

P Securitisation and related financing

The Company has entered into financing arrangements with lenders in order to finance loans and advances to customers. Such receivables have typically been sold for legal purposes to consolidated Special Purpose Entities (SPEs). As the Company is not fully isolated from the risks and benefits of securitisation transactions, the requirements of IAS 39 'Financial instruments, recognition and measurement' have been followed. As required by IAS 39 the Company continues to recognise the carrying value of the transferred assets and a liability is recognised, net of retained interests, for the proceeds of the funding transaction.

Certain transaction costs which can be directly associated to securitisation debt issuance are deferred – refer to accounting policy W 'Debt'.

Q Vehicle residual value provisions

Residual values represent the estimated value of the vehicle at the end of the retail or leasing financing plan. Residual values are calculated after analysing published residual values and FCE's own historical experience in the used vehicle market.

Residual value provisions and accumulated depreciation on vehicles subject to operating leases are based on assumptions as to the used car prices at the end of the financing plan and the number of vehicles that will be returned. Vehicle residual value provisions are reviewed at least quarterly and are accounted for as an adjustment to the carrying value of the assets. The amount of any impairment to residual values is accounted for as supplemental depreciation for operating leases and as a deduction from 'Loans and advances to customers' for retail and finance lease contracts. These assumptions and the related reserves may change based on market conditions - refer to accounting policy C 'Critical accounting estimates'.

Changes to residual value provisions for retail and finance lease contracts are included in the income statement under the caption 'Interest income' and for operating leases within 'Depreciation of property and equipment'.

R Property and equipment

All property and equipment is stated at historical cost less accumulated depreciation. Depreciation is calculated on a straight line method to write down the cost of such assets to their residual values at the following rates:

Asset type	Annual Depreciation Rate
Computer equipment	25.00%
Other office equipment	8.00%
Company motor vehicles	25.00%

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are included in 'Operating expenses' in the income statement.

Operating lease assets over which FCE has entered into operating lease agreements as the lessor are included in Property and equipment. Depreciation is charged on Operating Lease assets over the period of the lease to its estimated residual value on a straight line basis.

The depreciation policy for leased vehicles (including vehicles subject to operating leases) is reviewed on a regular basis taking into consideration various assumptions, such as expected residual values at lease termination and the estimated number of vehicles that will be returned. Adjustments to reflect revised estimates of expected residual values at the end of the lease terms are recorded on a straight-line basis. Upon return of the vehicle, depreciation expense is adjusted for the difference between net book value and expected resale value and the vehicle is transferred to 'Other assets'.

S Deferred and current income taxes

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is determined using tax rates and laws that have been substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Income tax payable on profits is based on the applicable tax law in each company's jurisdiction and is calculated at rates of tax substantially enacted at the balance sheet date. Income tax payable is recognised as an expense in the period in which the profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available which these losses can be utilised against.

Notes to the consolidated financial statements for the year ended 31 December 2011

T Goodwill and other intangible assets

(i) Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net assets of the acquired subsidiary at the date of acquisition. At each balance sheet date goodwill is tested for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Other intangible assets relate to computer software development costs. Such costs typically are expensed as incurred. Costs that are directly associated with identifiable and unique software products controlled by FCE and which are anticipated to generate future economic benefits exceeding costs are recognised as intangible assets. Direct costs include staff costs of the software development team.

Expenditure which significantly enhances or extends the performance of computer software programmes beyond their original specifications is recognised as capital improvements and added to the original costs of the software. Computer software development costs recognised as assets are amortised using a straight line method over their useful lives of three or eight years for PC/network and mainframe applications respectively. Other intangible assets are carried at cost less accumulated amortisation and any impairment charges. Impairment is tested at each reporting date. The amortisation of intangible assets is recorded within the income statement within other operating expenses.

U Investments in group undertakings

The Company's interest in group undertakings are stated at cost less any provisions for impairment.

V Debt

Debt, which primarily comprises of amounts due to banks and other financial institutions, corporate deposits, debt securities in issue and subordinated loans, is initially stated at fair value net of transaction costs incurred. Foreign currency debt obligations as other foreign currency assets and liabilities are translated into sterling at the exchange rates ruling at the balance sheet date and gains and losses are recorded within the income statement under the caption 'Loss on foreign exchange'.

Debt not designated as part of a hedging relationship is subsequently stated at amortised cost and any differences between net proceeds and the redemption value is recognised in the income statement over the life of the underlying debt.

Debt that is designated as part of a fair value hedging relationship is adjusted to reflect changes in fair value attributable to the risk being hedged and the gains and losses are recognised in the income statement within the same caption as the associated hedge, which is 'fair value adjustments to financial instruments'.

Certain transaction costs which can be directly associated to securitisation debt issuance are deferred. For retail and wholesale securitisation transactions, deferred costs are amortised to 'interest expense' over the term of the related debt using the effective interest method. Transaction costs which cannot be directly associated to securitisation debt issuance are expensed to 'Operating expenses'.

W Other liabilities and provisions

Provisions are recognised when FCE has a present and legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provision is made for the anticipated cost of restructuring including employee separation costs, when an obligation exists. An obligation exists when FCE has a detailed formal plan for restructuring an operation and has raised valid expectations in those affected by the restructuring by starting to implement the plan or announcing its main features.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

For the purposes of measurement of uncertain tax positions, FCE's unit of measure is by tax authority. Where a range of outcomes is possible, FCE applies a single best estimate on a 'more likely than not' basis from the range of possible outcomes.

X Dividends

Dividends declared but not paid are included within the balance sheet under the caption 'amounts due to parent and related undertakings'. If the following criteria are met: (i) proposal by the Directors, and (ii) if a final dividend then approval at the Annual General Meeting, then at which point the dividends become formally declared. Dividends declared following the balance sheet date are disclosed as a non-adjusting post balance sheet event.

Y Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised in the balance sheet at fair value.

Notes to the consolidated financial statements for the year ended 31 December 2011

2 NET INTEREST INCOME

Interest earned on most retail loans and advances is generally fixed at the time the contracts are originated. On some loan and advances, primarily wholesale financing, FCE charges interest at a floating rate that varies with changes in short-term interest rates.

For the year ended 31 December	Notes	Group	
		2011 £ mil	2010 £ mil
Interest income			
Interest income from loans and advances to external parties		£ 391	£ 419
Interest income from related parties	43	453	464
Interest income adjustment relating to residual values	17	1	4
Cash and short term deposit income from external parties and other miscellaneous income		11	6
Total interest income		£ 856	£ 893
Interest expense			
Interest expense to external parties		£ (482)	£ (502)
Interest expense to related parties	43	(30)	(37)
Total interest expense		£ (512)	£ (539)
Net interest income		£ 344	£ 354

'Interest income from loans and advances to external parties' includes revenue from 'retail', 'wholesale' and 'other' product segments excluding income from operating lease vehicles which is reported within Note 4 'Other operating income'.

'Interest income from related parties' primarily relates to wholesale receivables income with entities that are reported as consolidated entities of Ford and include both wholly and partially Ford owned dealers.

'Interest income adjustment relating to residual values' relates to changes in the value of vehicle residual provisions on retail and finance lease contracts that impact the effective interest rate. For further information see Note 17 'Provision for vehicle residual value losses'.

'Cash and short term deposit income from external parties and other miscellaneous income' mainly relates to interest income from short term investments held as additional liquidity in excess of immediate funding requirements.

'Interest expense to external parties' includes expense relating to securitisation, local bank borrowings, public debt offering and corporate deposits.

'Interest expense to related parties' includes expense related to liabilities included within Note 27 'Due to parent and related undertakings' and Note 30 'Subordinated loans'.

Notes to the consolidated financial statements for the year ended 31 December 2011

3 NET FEES AND COMMISSION INCOME

For the year ended 31 December		Group	
		2011 £ mil	2010 £ mil
Fees and commission income	Note		
Finance related and other fee income		£ 25	£ 38
Insurance sales commission income		27	30
Total exceptional fees and commissions income	9	11	2
Total fee and commission income		£ 63	£ 70
Fees and commission expense			
Finance related and other fee expense		£ (9)	£ (5)
Commission and incentive expense		(4)	(3)
Total fees and commission expense		£ (13)	£ (8)
Net fee and commission income		£ 50	£ 62

'Finance related and other fee income' relates to other fees received which cannot be directly associated with the origination of the finance receivables. This includes commission income received by FCE for the provision of marketing and sales of commercial operating leases ('Full Service Leasing' or 'FSL'), to a non-affiliated business partner. The preferred third party business partner in each market is responsible for financing, maintenance, repair services and the resale of vehicles at the end of the lease period.

'Insurance sales commission income' primarily relates to Ford branded insurance products offered throughout Europe. These insurance products, which are mainly vehicle insurance related and payment protection plans, are underwritten by non-affiliated local insurance companies from which FCE receives fee income, but the underwriting risk remains with the third-party insurance companies.

'Fee and commission expense' includes commissions and other bonuses payable to dealers which cannot be directly associated with the origination of the finance receivables.

For details of exceptional items, see Note 9 'Profit before tax'.

Notes to the consolidated financial statements for the year ended 31 December 2011

4 OTHER OPERATING INCOME

Other operating income includes rentals received for operating lease vehicles to leased commercial customers including leasing companies, daily rental companies and fleet customers and other miscellaneous income. For operating leases the financing margin equals rentals received as

recorded in 'Other operating income' less depreciation expense as recorded within Note 19 'Property and equipment' and the cost of borrowed funds as recorded within the caption 'Interest expense' within Note 2 'Net interest income'.

For the year ended 31 December		Group	
		2011 £ mil	2010 £ mil
	Note		
Income from operating leases		£ 180	£ 139
Other income		2	4
Total other operating income excluding exceptional items		£ 182	£ 143
Total exceptional operating income	9	(6)	5
Other operating income		£ 176	£ 148

For details on exceptional items, see Note 9 'Profit before tax'

Notes to the consolidated financial statements for the year ended 31 December 2011

5 OPERATING EXPENSES

For the year ended 31 December		Group	
		2011 £ mil	2010 £ mil
	Notes		
Staff costs			
Wages and salaries		£ 110	£ 103
Social security contributions		13	13
Retirement benefits	34	17	12
Total staff costs		£ 140	£ 128
Other expenses			
Software amortisation	22	£ 5	£ 4
Administrative expenses		47	54
Operating lease rental expense		6	6
Other expenses		3	1
Total other expenses		£ 61	£ 65
Total operating expenses excluding exceptional items		£ 201	£ 193
Total exceptional operating expenses	9	-	22
Total operating expenses		£ 201	£ 215
Analysis of staff costs:			
Restructuring costs - wages and salaries		£ 7	£ 11
Restructuring costs - retirement benefit	34	3	2
Total restructuring costs		£ 10	£ 13
Wages and salaries excluding restructuring		£ 103	£ 103
Social security contributions		13	13
Retirement benefits excluding restructuring		14	12
Total staff costs including exceptional items		£ 140	£ 141
Number of employees			
Average number of permanent employees during the year		1,750	1,863

Included within 'Administrative expenses' are amounts paid to Ford and its related companies for services received which are detailed within Note 43 'Related party transactions'

For details of exceptional items, see Note 9 'Profit before tax'

In 2010, 'Restructuring costs' were included as 'Exceptional items' within Note 9. Due to their incidence of occurrence and size, FCE considers that the ongoing costs relating to restructuring actions do not currently meet the definition of an exceptional item. The Group continually seeks opportunities to align its structure to the changing business environment.

Notes to the consolidated financial statements for the year ended 31 December 2011

6 TRANSACTIONS WITH DIRECTORS AND OFFICERS

FCE's Directors and Officers, and persons connected with them, are also considered to be related parties for disclosure purposes. Officers are defined as those persons who are members of FCE's Executive Committee who are not also statutory Directors of the Company (for more information on the Executive Committee please refer to 'Governance - Committees of the Board' on page 32)

Loans In the ordinary course of business the Company makes loans available to certain management grade employees, Officers and Directors under a management car loan plan. (Non-Executive Directors are not entitled to participate in this arrangement.) Certain Directors and Officers of the Company (including connected persons) have

been granted loans to finance the purchase of a maximum of two vehicles from Ford Motor Company Limited (FMCL). The individual pays the Company only the interest on the loan which is set at a commercial rate. These payments are paid monthly as incurred and no interest was outstanding at year-end. The terms of the loans are not intended to last for longer than twelve months. When the loans mature the employee may settle the loan directly with FCE or the vehicles are returned to FCE.

Details of transactions, outstanding balances at the beginning and end of periods, maximum amount outstanding and related income and expense in the period are as follows

Company	2011			2010		
	Directors £000's	Officers £000's	Total £000's	Directors £000's	Officers £000's	Total £000's
Loans						
Loans outstanding at 1 January	£ 81	£ 156	£ 237	£ 109	£ 180	£ 289
Loans issued in the year	299	341	640	185	413	598
Loan repayments during the year	(250)	(371)	(621)	(213)	(437)	(650)
Loans outstanding at 31 December	£ 130	£ 126	£ 256	£ 81	£ 156	£ 237
Maximum loans in period	£ 144	£ 157	£ 301	£ 100	£ 167	£ 267
Revenue						
Interest Revenue from loans	£ 9	£ 14	£ 23	£ 11	£ 19	£ 30
Remuneration payments						
Salaries/other short-term benefits	£ 1,569	£ 1,308	£ 2,877	£ 1,318	£ 1,125	£ 2,443
Post-employment benefits	173	249	422	161	194	355
Share based payments	758	101	859	671	94	765
Total remuneration payments	£ 2,500	£ 1,658	£ 4,158	£ 2,150	£ 1,413	£ 3,563

Mr Noone and Mr Silverstone's compensation is paid directly by FCE's parent FCI, which makes no direct recharge to FCE for their services. Both Mr Noone and Mr Silverstone hold senior management responsibility within FCE's parent company, only a small portion includes the representation of FCIs interest within FCE. As a result it is not possible to make a reasonable apportionment of their compensation in respect of FCE. Accordingly, the above details include no compensation in respect of Mr Noone or Mr Silverstone.

Salaries/other short-term benefits There was one termination payment made in 2011 to one Director of £199,411. Officers are the eight (2010: eight) members of the Executive Committee who are not Directors of the Company. The full list of present Directors and details on the Committees of the Board are displayed on page 27 and from page 32 respectively.

Remuneration payments Aggregate emoluments for the highest paid Director were £384,425 (2010: £354,740).

The highest paid Director in 2011 was a member of the FMCL Pension Scheme for Senior Staff. The projected accrued annual benefit at age 65 for the highest paid Director as 31 December 2011 was £88,759. Employer contributions made to the pension of the highest paid Director during 2011 totalled £44,819. The pension scheme allows for some of the accrued annual pension benefit to be commuted to a lump sum payment on retirement. The maximum projected lump sum available at age 65 for the highest paid Director in 2011 was £367,261 together with a reduced pension of £55,089.

The highest paid Director in 2010 was a member of the Ford (US) General Retirement Plan (GRP) and comparison between the two pension schemes could be misleading due to their different features and structures. The GRP is a defined benefit plan and does not allow for an accrued lump sum. No employer contributions or annual interest payment were made to the GRP in 2010 for the highest paid Director. The projected accrued annual benefit at age 65 for the highest paid Director in 2010 was £1,138.80.

Notes to the consolidated financial statements for the year ended 31 December 2011

6 TRANSACTIONS WITH DIRECTORS AND OFFICERS continued

Post-employment benefits Retirement benefits are accruing to three current Directors and seven Officers (2011 four Directors and seven Officers) under various Ford defined benefit schemes

Share Based Payments During the financial year ended 31 December 2011 two Directors exercised share options held over Ford Common Stock Shares were receivable under a Long Term Incentive scheme by five Directors in 2011

Notes to the consolidated financial statements for the year ended 31 December 2011

7 FAIR VALUE ADJUSTMENTS TO FINANCIAL INSTRUMENTS

The following table analyses by type of contract the fair value adjustments recognised in the income statement within the captions 'Fair value adjustments to financial instruments'

For the year ended 31 December	Group	
	2011 £ mil	2010 £ mil
Net gains recognised in the income statement		
- prior to tax and excluding gain / (loss) on foreign exchange as detailed in Note 8		
Designated fair value hedges		
Ineffectiveness on interest rate hedges	£ 4	£ 5
Total designated fair value hedges	£ 4	£ 5
Non-designated derivatives		
Interest rate swaps	£ (11)	£ (6)
Cross currency interest rate swaps	6	26
Foreign exchange forwards	6	9
Total non-designated derivatives	£ 1	£ 29
Total net gains recognised in the income statement	£ 5	£ 34

All derivatives are entered into by FCE for the purpose of matching or minimising risk. For further information on derivative usage, policies and controls refer to Note 40 'Financial market risk'

The gain of £4 million (2010 gain £5 million) for fair value hedges comprises of the losses on the hedging instruments in 2011 of £7 million (2010 loss £17 million) and gains on the hedged items attributable to the hedged risk of £11 million (2010 gain £22 million). Included in the gains/losses on hedged items attributable to hedged risk in 2010 is £6 million carrying value adjustments related to late term hedges. Such adjustments arise on hedging relationships designated later than the hedged items inception.

The fair value adjustments for foreign exchange derivatives are offset by the gain on foreign exchange as explained in Note 8 'Gain or loss on foreign exchange'. For interest rate risk management, FCE uses interest rate swaps to match the repricing characteristics of its receivables to its debt.

FCE currently holds primarily pay-floating swaps which increase in fair value if forward interest rates fall. During 2011, the overall fair value of interest rate swaps has decreased due to changes in the composition of the derivatives portfolio.

Derivatives are measured at fair value using market rates and industry standard valuation models.

Notes to the consolidated financial statements for the year ended 31 December 2011

8 GAIN OR LOSS ON FOREIGN EXCHANGE

The following table analyses the gains and losses recognised in the income statement within the captions 'Gain/(loss) on foreign exchange' arising primarily from the revaluation of foreign currency assets and liabilities into sterling at exchange rates ruling at the balance sheet date

For the year ended 31 December	Group	
	2011 £ mil	2010 £ mil
Foreign currency debt obligations	£ (22)	£ (41)
Other foreign currency assets and liabilities	(2)	-
Total gain/(loss) on foreign exchange	£ (24)	£ (41)

To meet funding objectives, FCE borrows in a variety of currencies. FCE's exposure to currency exchange rates occurs if a mismatch exists between the currency of the receivables and the currency of the debt funding those receivables.

Wherever possible, FCE funds receivables with debt in the same currency, minimising exposure to exchange rate movements. When a different currency is used, foreign currency derivatives are executed to convert foreign currency debt obligations to the local country currency of the receivables and reduce the exposure to movements in foreign exchange rates.

Consequently the loss on 'foreign currency debt obligations' of £22 million (2010: £41 million loss) are partially offset by fair value gain on foreign exchange derivatives as detailed in Note 7 'Fair value adjustments to financial instruments'.

Refer to Note 40 'Financial market risk' for further information on FCE's use of derivatives.

Notes to the consolidated financial statements for the year ended 31 December 2011

9 PROFIT BEFORE TAX

Profit before tax includes certain exceptional items. Exceptional items are those significant items which by virtue of their size or incidence are separately disclosed to aid the interpretation of performance compared to the prior year. Exceptional items have resulted in increased profits of £5 million in 2011 (2010: £18 million reduction in profits).

		Group	
For the year ended 31 December		2011 £ mil	2010 £ mil
Exceptional items			
Profit before tax (PBT) is stated after crediting/(charging)	Notes		
Fees and commissions income			
Profit sharing income		£ 11	£ -
Commission income adjustment (provision)/release		-	2
Total exceptional fees and commissions income	3	£ 11	£ 2
Other operating income			
Portfolio sale agreement expense		£ (6)	£ -
Volvo insurance commission payment		-	5
Total exceptional operating income	4	£ (6)	£ 5
Impairment losses on loans and advances to customers			
Spanish rental car business		£ -	£ (4)
Release of VAT reserve		-	1
Total exceptional impairment losses on loans and advances to customers	16	£ -	£ (3)
Operating expenses			
Voluntary pension contribution		£ -	£ (11)
Restructuring costs		-	(13)
VAT recovery on service fees		-	2
Total exceptional operating expenses	5	£ -	£ (22)
Total exceptional items		£ 5	£ (18)

'Profit sharing income' relates to a one-time gain on the settlement of amounts outstanding under a historical profit sharing agreement which previously did not meet revenue recognition criteria.

'Portfolio sale agreement expense' relates to the expense incurred by FCE in the period under the terms of previous portfolio sales agreements.

In 2010, 'Restructuring costs' were included as 'Exceptional items' within Note 9. Due to their incidence of occurrence and size, FCE considers that the ongoing costs relating to restructuring actions do not currently meet the definition of an exceptional item. The Group continually seeks opportunities to align its structure to the changing business environment.

Notes to the consolidated financial statements for the year ended 31 December 2011

9 PROFIT BEFORE TAX continued

Depreciation

The analysis of depreciation included within 'Profit before tax' is as follows

		Group	
For the year ended 31 December	Notes	2011 £ mil	2010 £ mil
Depreciation			
Operating lease vehicles		£ 173	£ 99
Company vehicles and office equipment and leasehold improvements		1	1
Total depreciation	19	£ 174	£ 100

Auditor remuneration

During the year FCE obtained the following services from the group's auditors as detailed below

For the year ended 31 December	Company		Group	
	2011 £ 000's	2010 £ 000's	2011 £ 000's	2010 £ 000's
Nature of services				
Audit Services				
Audit of parent company and consolidated accounts	£ 1,201	£ 1,067	£ 1,201	£ 1,067
Audit of subsidiaries and SPEs pursuant to legislation	-	-	382	385
Total audit services	£ 1,201	£ 1,067	£ 1,583	£ 1,452
Non audit services				
Other services	£ 314	£ 93	£ 355	£ 185
Tax services	155	220	187	249
Total fees	£ 1,670	£ 1,380	£ 2,125	£ 1,886

Definition of nature of services:

- 'Audit of parent company and consolidated accounts' relates to the audit of the annual financial statements of the Company and the Group and review of the Interim Financial Statements
- 'Audit of subsidiaries and SPEs pursuant to legislation' relates to the audit of the annual financial statements of the Company's subsidiaries and Special Purpose Entities
- 'Other services' relates mainly to securitisation and debt offerings and assistance provided concerning financial accounting and reporting standards
- 'Tax services' – relates to tax compliance support in relation to tax returns and transfer pricing documentation

Notes to the consolidated financial statements for the year ended 31 December 2011

9 PROFIT BEFORE TAX continued

Auditor remuneration

Further explanatory information:

Included in the 'Audit Committee Report' within the 'Governance' section under the caption 'External auditors, their work and non-audit related services' are details of the audit arrangements with PricewaterhouseCoopers LLP (PwC)

Included in 'Other services' and 'Tax services' is £204,100 (2010 £88,250) paid by the Company to the UK firm of PwC, of which £55,000 (2010 nil) relates to services provided on FCE's remuneration policy

Pre-approval policies and procedures

The Ford Audit Committee has established approval policies and procedures that govern the engagement of PwC. The services provided by PwC are pre-approved in accordance with Ford's policies and procedures and also by the Company's Audit Committee. This policy also governs the use of Ford's independent accountant to ensure continuing independence.

Notes to the consolidated financial statements for the year ended 31 December 2011

10 INCOME TAX EXPENSE

The charge for taxation on the profit for the year is as follows

For the year ended 31 December	Group	
	2011 £ mil	2010 £ mil
Current tax		
UK Corporation tax of 26.5%	£ 40	£ 45
Overseas taxation	30	25
Relief of overseas taxation	(12)	(21)
Adjustment to prior year corporation tax	6	6
Income tax expense current	£ 64	£ 55
Deferred tax		
Current year	£ (4)	£ 26
Prior year	(4)	(3)
Income tax expense deferred	£ (8)	£ 23
Income tax expense	£ 56	£ 78

The factors affecting the tax charge for the period are explained below

For the year ended 31 December	Group	
	2011 £ mil	2010 £ mil
Profit before tax	£ 179	£ 239
Profit multiplied by standard rate of UK Corporation tax of 26.5%	£ 47	£ 67
Effects of:		
Foreign taxes higher/(lower) than UK taxes	£ 2	£ 3
Prior year current and deferred tax	2	3
UK tax rate changes for deferred tax	2	1
Deferred tax not recognised	-	3
Expenses/(income) not deductible/(taxable)	3	1
Income tax expense	£ 56	£ 78

Notes to the consolidated financial statements for the year ended 31 December 2011

11 CASH AND ADVANCES

Cash and highly liquid investments with a maturity of 90 days or less at date of purchase are included within this note under the caption 'Cash and cash equivalents'. The net book value of cash and advances to banks approximates fair value due to the short maturities of these investments.

As at 31 December	Company		Group	
	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
Cash in bank	£ 781	£ 444	£ 795	£ 471
Cash in transit	3	5	3	5
Cash equivalents	1,220	596	1,220	604
Cash and cash equivalents	£ 2,004	£ 1,045	£ 2,018	£ 1,080
Other bank deposits	£ 72	£ 61	£ 320	£ 313
Collateralised deposits	-	19	360	533
Cash associated with securitisation transactions	£ 72	£ 80	£ 680	£ 846
Total cash and cash equivalents	£ 2,076	£ 1,125	£ 2,698	£ 1,926
Deposits in support of EIB loans	£ -	£ 90	£ -	£ 90
Central bank deposits	69	77	69	78
Other deposits	£ 69	£ 167	£ 69	£ 168
Total cash and advances	£ 2,145	£ 1,292	£ 2,767	£ 2,094
Analysis of cash and advances				
Operational cash	£ 192	£ 279	£ 205	£ 306
Cash and cash equivalents held centrally	1,809	761	1,809	761
Other cash and advances	144	252	753	1,027
Total cash and advances	£ 2,145	£ 1,292	£ 2,767	£ 2,094
Current	£ 2,076	£ 1,151	£ 2,698	£ 1,952
Non current	69	141	69	142
Total	£ 2,145	£ 1,292	£ 2,767	£ 2,094

'Deposits in support of EIB loans' represent deposits made by the company in regard to European Investment Bank loans. The loan has been repaid in full as at 31 December 2011. For further details refer to Note 25 'Due to banks and other financial institutions'.

'Central bank deposits' represent balances with the Bank of England and other Central banks in Europe which FCE is required to maintain. The amount included in the note is not available for use in FCE's day to day operations.

'Cash associated with securitisation transactions' includes both amounts retained in the Company and balances held by and available to consolidated SPEs. These deposits include funds which are in some instances invested in highly rated government debt. The amount included in the note is not available for use in FCE's day to day operations.

'Operational cash' represents cash held in the Company's branches and subsidiaries to facilitate day to day operation of the business.

'Cash and cash equivalents held centrally' represents cash and investments held as additional liquidity in excess of immediate funding requirements. This forms part of FCE's liquidity sources. Refer to the 'Capital and Funding' section of the Directors' report for further details of FCE's liquidity. Included in 'Cash and cash equivalents held centrally' is sovereign exposures consisting of £1,113 million held with central banks that is not required to be maintained for regulatory purposes (2010: £150 million), and nil government debt (2010: £194 million).

Notes to the consolidated financial statements for the year ended 31 December 2011

12 MARKETABLE SECURITIES

Investment securities with a maturity date greater than 90 days at the date of the security's acquisition are classified as marketable securities. Marketable securities are recorded at fair value with unrealised gains and losses recorded to profit and loss. For further information on fair value measurement refer to Note 42 'Financial assets and financial liabilities'.

For the purposes of liquidity risk analysis, investments considered highly liquid by nature are considered by FCE to be available as an on demand source of liquidity ahead of contractual maturity. Refer to the 'Capital and Funding' section of the Directors' report for further details of FCE's liquidity.

As at 31 December	Company		Group	
	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
Euro bills	£ -	£ 223	£ -	£ 223
Total debt securities held at fair value	£ -	£ 223	£ -	£ 223
Current	£ -	£ 223	£ -	£ 223
Non current	-	-	-	-
Total	£ -	£ 223	£ -	£ 223

Notes to the consolidated financial statements for the year ended 31 December 2011

13 DERIVATIVE FINANCIAL INSTRUMENTS

The following tables analyse the derivative financial instruments by type of contract, giving the underlying notional amount and estimated fair value. The fair values reported below are included in both assets and liabilities sections of the balance sheet within the caption 'Derivative financial instruments'

As at 31 December Company	2011			2010		
	Notional Amount £ mil	Fair Values Assets £ mil	Liabilities £ mil	Notional Amount £ mil	Fair Value Assets £ mil	Liabilities £ mil
Designated as fair value hedges						
Interest rate swaps	£ 951	£ 32	£ -	£ 1,224	£ 62	£ 4
Total designated as fair value hedges	£ 951	£ 32	£ -	£ 1,224	£ 62	£ 4
Non-designated derivatives						
Interest rate swaps	£ 7,276	£ 116	£ 29	£ 6,388	£ 185	£ 26
Cross currency interest rate swaps	-	-	-	481	16	76
Foreign exchange forwards	1,173	7	24	1,179	11	-
Total non-designated derivatives	£ 8,449	£ 123	£ 53	£ 8,048	£ 212	£ 102
Total derivatives	£ 9,400	£ 155	£ 53	£ 9,272	£ 274	£ 106
Current		£ 46	£ 26		£ 56	£ 84
Non current		109	27		218	22
Total	£	155	£ 53	£	274	£ 106

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

All derivatives entered into by FCE are for the purpose of matching or minimising risk from potential movements in foreign exchange rates and/or interest rates inherent in FCE's financial assets and liabilities. All designated hedges are utilised to manage interest rate risk.

For further information in regard to derivative usage, policies and controls refer to Note 40 'Financial market risk'.

For information on counterparty credit risk management relating to derivatives, refer to Note 38 'Credit risk'.

Notes to the consolidated financial statements for the year ended 31 December 2011

13 DERIVATIVE FINANCIAL INSTRUMENTS continued

As at 31 December Group	2011			2010		
	Notional Amount £ mil	Fair Values Assets £ mil	Liabilities £ mil	Notional Amount £ mil	Fair Value Assets £ mil	Liabilities £ mil
Designated as fair value hedges						
Interest rate swaps	£ 951	£ 32	£ -	£ 1,224	£ 62	£ 4
Total designated as fair value hedges	£ 951	£ 32	£ -	£ 1,224	£ 62	£ 4
Non-designated derivatives						
Interest rate swaps	£ 9,765	£ 116	£ 61	£ 8,598	£ 187	£ 78
Cross currency interest rate swaps	475	8	-	481	16	76
Foreign exchange forwards	1,173	7	24	1,179	11	-
Total non-designated derivatives	£ 11,413	£ 131	£ 85	£ 10,258	£ 214	£ 154
Total derivatives	£ 12,364	£ 163	£ 85	£ 11,482	£ 276	£ 158
Current		£ 46	£ 25		£ 56	£ 85
Non current		117	60		220	73
Total	£	163	£ 85	£	276	£ 158

Notes to the consolidated financial statements for the year ended 31 December 2011

14 OTHER ASSETS

Other assets at 31 December were as follows

As at 31 December	Notes	Company		Group	
		2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
Accounts receivable					
Related parties	43	£ 63	£ 72	£ 64	£ 73
External		82	99	82	100
Subsidiary undertakings	43	101	887	-	-
Sub-total accounts receivable		£ 246	£ 1,058	£ 146	£ 173
Loans receivable					
Subsidiary undertakings	43	£ 330	£ 380	£ -	£ -
Sub-total loans receivable		£ 330	£ 380	£ -	£ -
Vehicles awaiting resale		£ 134	£ 66	£ 134	£ 66
Prepayments and accrued income		16	12	10	5
Prepaid taxes and related interest		7	7	7	7
Total other assets		£ 733	£ 1,523	£ 297	£ 251
Current		£ 733	£ 1,523	£ 297	£ 251
Non current		-	-	-	-
Total other assets		£ 733	£ 1,523	£ 297	£ 251

'Accounts receivable – related parties' includes balances generated in the ordinary course of business. Refer to Note 43 'Related party transactions' for further details.

'Vehicles awaiting resale' relates to returned and re-possessed vehicles from operating leases and retail finance and lease contracts. These are reported at the net book value after adjusting for any residual value provisions.

In 2010, certain amounts were recorded within 'subsidiary undertakings' relating to amounts receivable between the Company and its subsidiaries. During 2011 these amounts have been reclassified in accordance with IAS 39.

Notes to the consolidated financial statements for the year ended 31 December 2011

15 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers as at 31 December were as follows

As at 31 December	Notes	Company		Group	
		2011	2010	2011	2010
		£ mil	£ mil	£ mil	£ mil
Finance receivables					
Retail excluding finance lease		£ 5,000	£ 5,639	£ 5,065	£ 5,713
Finance lease		710	1,012	720	1,038
Wholesale excluding other		4,399	4,561	4,573	4,738
Other		27	30	27	30
Gross loans and advances to customers		£ 10,136	£ 11,242	£ 10,385	£ 11,519
Unearned finance income		£ (361)	£ (436)	£ (364)	£ (439)
Provision for incurred losses	16	(63)	(82)	(64)	(82)
Provision for vehicle residual value losses	17	(4)	(7)	(4)	(7)
Interest supplements from related parties		(151)	(192)	(151)	(193)
Net deferred loan origination costs / (fees)		7	19	9	20
Net loans and advances to customers		£ 9,564	£ 10,544	£ 9,811	£ 10,818
Current		£ 6,382	£ 6,986	£ 6,597	£ 7,207
Non current		3,182	3,558	3,214	3,611
Net loans and advances to customers		£ 9,564	£ 10,544	£ 9,811	£ 10,818
Analysis of net loans and advances					
Retail		£ 5,150	£ 5,964	£ 5,222	£ 6,061
Wholesale		4,414	4,580	4,589	4,757
Net loans and advances to customers		£ 9,564	£ 10,544	£ 9,811	£ 10,818
Net loans not subject to securitisation		£ 2,035	£ 2,571	£ 2,282	£ 2,845
Net loans subject to securitisation	18	7,529	7,973	7,529	7,973
Net loans and advances to customers		£ 9,564	£ 10,544	£ 9,811	£ 10,818
Percentage analysis of loans and advances					
Percentage of net retail financing loans		54%	57%	53%	56%
Percentage of net wholesale/ other financing loans		46%	43%	47%	44%
Percentage of net loans subject to securitisation		79%	76%	77%	74%
Percentage of net loans not subject to securitisation		21%	24%	23%	26%
Percentage of gross loans subject to securitisation		77%	73%	75%	72%
Percentage of gross loans not subject to securitisation		23%	27%	25%	28%

'Retail' includes retail finance and lease contracts, introduced through a Dealer to individual consumers, sole traders and businesses. Such contracts are primarily fixed-rate, retail finance and lease contracts which generally require customers to pay equal monthly payments over the life of the contracts.

'Wholesale' primarily represents receivables originated to finance new and used vehicles held in dealer's inventory and generally require dealers to pay a floating rate. Wholesale receivables include receivables from dealerships that are either partially or wholly owned by Ford.

'Other' includes loans due to dealers for working capital and property improvements.

In a portion of loans subject to securitisation, FCE holds a senior retained interest to provide greater flexibility in the use of its committed securitisation capacity. Refer to the Capital and Funding section of the Directors' report for further details.

Reclassification

During the year, certain accounts were reviewed and reclassified within loans and advances from 'Unearned finance income' to 'Net deferred loan origination costs/ (fees)' (31 December 2011 £13 million).

Notes to the consolidated financial statements for the year ended 31 December 2011

15 LOANS AND ADVANCES TO CUSTOMERS continued

Loans and advances to customers include the following finance lease receivables

As at 31 December	Company		Group	
	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
Gross finance lease receivables				
Within 1 year	£ 283	£ 425	£ 288	£ 438
After 1 year and within 5 years	423	586	428	599
After 5 years	4	1	4	1
Total gross finance lease receivables	£ 710	£ 1,012	£ 720	£ 1,038
Unearned finance income on finance leases	£ (61)	£ (80)	£ (61)	£ (80)
Provision for incurred losses on finance leases	(4)	(8)	(4)	(8)
Provision for finance lease vehicle residual value losses	(1)	(4)	(1)	(4)
Unearned interest supplements from related parties on finance leases	(12)	(10)	(12)	(10)
Net deferred finance lease origination costs / (fees)	3	3	3	3
Net investment in finance leases	£ 635	£ 913	£ 645	£ 939
Within 1 year	£ 242	£ 370	£ 247	£ 381
After 1 year and within 5 years	390	542	395	557
After 5 years	3	1	3	1
Total net investment in finance leases	£ 635	£ 913	£ 645	£ 939

Notes to the consolidated financial statements for the year ended 31 December 2011

16 PROVISION FOR INCURRED LOSSES

The movement in the provision for incurred losses is as follows

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

For details of exceptional items, see Note 9 'Profit before tax'

Notes to the consolidated financial statements for the year ended 31 December 2011

17 PROVISION FOR VEHICLE RESIDUAL VALUE LOSSES

The movement in the provision for vehicle residual values for the years ended 31 December 2010 and 31 December 2011 is as follows

	Notes	Company			Group		
		Retail £ mil	Operating Lease £ mil	Total £ mil	Retail £ mil	Operating Lease £ mil	Total £ mil
Balance at 1 January 2010		£ 14	£ 5	£ 19	£ 14	£ 5	£ 19
Residual value losses charged/ (credited) to income statement		(4)	(17)	(21)	(4)	(17)	(21)
Deductions							
- Residual value gains/(losses) incurred in the period		(6)	18	12	(6)	18	12
Other							
- Reclassification to vehicle residual value provision		5	-	5	5	-	5
- Exchange adjustments		(2)	-	(2)	(2)	-	(2)
Balance at							
31 December 2010 / 1 January 2011	15	£ 7	£ 6	£ 13	£ 7	£ 6	£ 13
Residual value losses charged/ (credited) to income statement		(1)	30	29	(1)	30	29
Deductions							
- Residual value gains/(losses) incurred in the period		(2)	(24)	(26)	(2)	(24)	(26)
Balance at							
31 December 2011 / 1 January 2012	15	£ 4	12	16	4	12	16

Changes to residual value provisions for retail and finance lease contracts are included in the income statement under the caption 'Interest income' and for operating leases within 'Depreciation of property and equipment'

'Reclassification to vehicle residual value provision' represents a reclassification of impaired residual values previously reported within gross wholesale loans and advances to customers

Notes to the consolidated financial statements for the year ended 31 December 2011

18 SECURITISATION AND RELATED FINANCING

FCE's funding sources include securitisation programmes as well as other committed factoring transactions that generally include the transfer of loans and advances through a variety of programmes and structures

The table below summarises the balances relating to the Company's securitisation transactions which includes committed factoring programmes and other secured financing. The difference between 'Loans and advances subject to securitisation' and 'Related Debt' reflects the Company's retained interests, not including cash associated with the securitisation transactions

Group		Note	Wholesale		Retail		Total		Total
			Public £ mil	Private £ mil	Public £ mil	Private £ mil	Public £ mil	Private £ mil	
As at 31 December 2011									
Loans and advances subject to securitisation	15	£	-	£ 3,298	£ 1,644	£ 2,587	£ 1,644	£ 5,885	£ 7,529
Due to banks and other financial institutions	25	£	-	£ 2,033	£ -	£ 2,031	£ -	£ 4,064	£ 4,064
Debt securities in issue	28		-	-	1,442	-	1,442	-	1,442
Related debt		£	-	£ 2,033	£ 1,442	£ 2,031	£ 1,442	£ 4,064	£ 5,506
As at 31 December 2010									
Loans and advances subject to securitisation	15	£	-	£ 3,591	£ 2,250	£ 2,132	£ 2,250	£ 5,723	£ 7,973
Due to banks and other financial institutions	25	£	-	£ 1,910	£ -	£ 1,314	£ -	£ 3,224	£ 3,224
Debt securities in issue	28		-	-	1,872	-	1,872	-	1,872
Related debt		£	-	£ 1,910	£ 1,872	£ 1,314	£ 1,872	£ 3,224	£ 5,096

Cash available to support the obligations of the SPEs as at 31 December 2011 of £680 million (31 December 2010 £846 million) is included within FCE's balance sheet under the caption 'Cash and advances' and detailed in Note 11 'Cash and advances'

Retained interests

The Company retains junior interests in most of its securitisation transactions. The Company also holds senior retained interests in several of its programmes to provide greater flexibility in the use of its committed securitisation capacity. Under these programmes, funding counterparties are legally obligated, at FCE's option, to make advances under asset-backed securities, thereby reducing FCE's senior interest and generating funding proceeds. Refer to the Capital and Funding section of the Directors' report for further details.

The Company retains credit risk in securitisation transactions through its junior retained interests which provide various forms of credit enhancements. These include over-collateralisation, segregated cash reserve funds, subordinated securities, and excess spread. The Company holds the right to any surplus cash flows generated by these junior retained interests. The Company's ability to realise the value of its retained interests depends on the actual credit losses and the prepayment rate on the securitised assets.

Notes to the consolidated financial statements for the year ended 31 December 2011

18 SECURITISATION AND RELATED FINANCING continued

Continuing obligations

The Company generally has no obligation to repurchase or replace any securitised asset that subsequently becomes delinquent in payment or otherwise is in default. Generally securitisation investors have no recourse to the Company or the Company's other assets for credit losses on the securitised assets and have no right to require the Company to repurchase their investments. The Company does not guarantee any asset-backed securities and has no obligation to provide liquidity or make monetary contributions or contributions of additional assets to the SPEs either due to

the performance of the securitised assets or the credit rating of the Company's short-term or long-term debt. However, as the seller and servicer of the securitised assets, the Company is expected to provide support to securitisation transactions, which are customary in the securitisation industry. These obligations include indemnifications, repurchase obligations on assets that do not meet eligibility criteria or that have been materially modified, the mandatory sale of additional assets in flat revolving transactions, and, in some cases, servicer advances of certain amounts.

Transaction structures

The Company utilises both amortising and revolving structures, and in all cases programmes provide for matched funding of the receivables, with securitisation debt having a maturity profile similar to the related receivables. The majority of its programmes also include a contractual commitment to fund existing and future receivables subject to conditions described more fully below.

In amortising structures, which involve the sale of a static pool of assets, the associated funding is repaid only through the liquidation of the securitised receivables and therefore its maturity profile is similar to the related assets. In revolving structures, the Company may continue to sell new eligible assets originated over an agreed period of time called the revolving period, and obtain funding from the transaction investors. In the event that a contractual commitment is not renewed at the end of the revolving period, all receivables securitised at the point of non-renewal remain funded, and the related debt is repaid as the receivables liquidate.

Within revolving structures the Company uses both flat and variable funding structures. In flat revolving structures, during the revolving period new assets are sold into the transaction to maintain a constant level of funding. In variable funding structures, utilisation levels are at the discretion of FCE.

At 31 December 2011, the Company had entered into two flat revolving structures totalling £0.9 billion (£0.4 billion at 31 December 2010), with revolving periods ending in January 2012 and March 2013.

Variable funding structures at 31 December 2011 totalled £4.5 billion of committed capacity (£4.9 billion at 31 December 2010) of which £4.2 billion matures during 2012

and the balance having various maturity dates between October 2013 and August 2014. At 31 December 2011, £3.0 billion (£2.8 billion at 31 December 2010) of the variable funding committed capacity was utilised.

Please refer to the 'Capital and Funding' section of the Directors' Report for further details.

Revolving structure capacity	
	£ bil
Balance at 1 January 2011	5.3
Committed capacity maturing	(2.2)
Committed capacity renewed and added	3.1
Capacity reductions	(0.7)
Exchange adjustments	(0.1)
Balance at 31 December 2011	5.4
Variable funding committed capacity	4.5
Flat revolving capacity	0.9
Balance at 31 December 2011	5.4

Of the £3.1 billion committed capacity renewed and added, £0.7 billion included committed revolving periods of 2 years or more.

Revolving transactions each contain certain features that could prevent the Company from selling additional pools of assets, and cause any existing funding to amortise. These include, among others, insolvency of FCE or Ford, credit losses or delinquency levels on the pool of retail assets exceeding specified limits, payment rates on the wholesale assets falling below agreed thresholds, the Company failing to add the required amount of additional assets into flat revolving structures, and credit enhancements not maintained at required levels. None of these securitisation transactions included cross default provisions.

Notes to the consolidated financial statements for the year ended 31 December 2011

19 PROPERTY AND EQUIPMENT

Property and equipment at 31 December were as follows

	Company					Group			
	Leasehold improve- ments £ mil	Office Equip- ment £ mil	Motor Vehicles £ mil	Total £ mil		Leasehold improve- ments £ mil	Office Equip- ment £ mil	Motor Vehicles £ mil	Total £ mil
Cost									
At 1 January 2010	£ 3	£ 9	£ 141	£ 153		£ 3	£ 10	£ 140	£ 153
Additions	-	1	461	462		-	1	461	462
Disposals	(1)	(1)	(412)	(414)		(1)	(1)	(411)	(413)
Translation adjustment	-	-	(4)	(4)		-	-	(4)	(4)
At 31 December 2010 / 1 January 2011	£ 2	£ 9	£ 186	£ 197		£ 2	£ 10	£ 186	£ 198
Additions									
	-	-	557	557		-	-	557	557
Disposals	-	(1)	(449)	(450)		-	(2)	(449)	(451)
Translation adjustment	-	-	(12)	(12)		-	-	(12)	(12)
At 31 December 2011	£ 2	£ 8	£ 282	£ 292		£ 2	£ 8	£ 282	£ 292
Depreciation									
At 1 January 2010	£ 2	£ 9	£ 32	£ 43		£ 3	£ 9	£ 31	£ 43
Charge for the year	-	-	100	100		-	-	100	100
Adjustment on returned vehicles	-	-	18	18		-	-	18	18
Disposals	(1)	(1)	(114)	(116)		(1)	(1)	(114)	(116)
At 31 December 2010 / 1 January 2011	£ 1	£ 8	£ 36	£ 45		£ 2	£ 8	£ 35	£ 45
Charge for the year									
	-	-	174	174		-	-	174	174
Adjustment on returned vehicles	-	-	(24)	(24)		-	-	(24)	(24)
Disposals	-	(2)	(134)	(136)		(1)	(2)	(134)	(137)
Translation adjustment	1	-	(3)	(2)		1	-	(2)	(1)
At 31 December 2011	£ 2	£ 6	£ 49	£ 57		£ 2	£ 6	£ 49	£ 57
Net book value at 31 December 2010									
	£ 1	£ 1	£ 150	£ 152		£ -	£ 2	£ 151	£ 153
Net book value at 31 December 2011									
	£ -	£ 2	£ 233	£ 235		£ -	£ 2	£ 233	£ 235

Notes to the consolidated financial statements for the year ended 31 December 2011

19 PROPERTY AND EQUIPMENT continued

Analysis of property and equipment is as follows

As at 31 December	Company		Group	
	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
Analysis of property and equipment				
Current	£ 230	£ 147	£ 230	£ 148
Non current	5	5	5	5
Total	£ 235	£ 152	£ 235	£ 153

Motor vehicles include vehicles held for use under operating leases as follows

As at 31 December	Company		Group	
	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
Operating Leases				
Cost	£ 277	£ 183	£ 277	£ 183
Accumulated depreciation	(48)	(35)	(48)	(35)
Total	£ 229	£ 148	£ 229	£ 148

Accumulated depreciation expense on vehicles subject to operating leases is recorded on a straight-line basis in the income statement within the captions 'Depreciation of property and equipment' in an amount necessary to reduce the leased vehicle to its estimated residual value at the end of the lease term. Adjustments to reflect revised estimates of expected residual values at the end of the lease terms are recorded prospectively on a straight-line basis. Upon disposal of the vehicle, the difference between net book value and actual proceeds is recorded as an adjustment to depreciation expense.

All assets are valued on the historical cost basis. Included in depreciation above are allowances for impairment losses for bad and doubtful debts of £1 million (2010: £1 million) for the Group and £1 million (2010: £1 million) for the Company.

For details of vehicle residual values included within property and equipment refer to Note 39 'Vehicle residual values'.

Notes to the consolidated financial statements for the year ended 31 December 2011

20 INCOME TAXES RECEIVABLE AND PAYABLE

The provision for income taxes receivable and payable for the years ended 31 December was estimated as follows

As at 31 December	Company		Group	
	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
UK taxation	£ -	£ -	£ -	£ -
Overseas taxation	16	51	16	52
Income taxes receivable	£ 16	51	£ 16	£ 52
UK taxation	£ 15	£ 11	£ 15	£ 11
Overseas taxation	6	1	6	1
Income taxes payable	£ 21	£ 12	£ 21	£ 12
Net income taxes receivable / (payable)	(5)	39	(5)	40
Current	£ (5)	£ 39	£ (5)	£ 40
Non current	-	-	-	-
Total	£ (5)	£ 39	£ (5)	£ 40

21 DEFERRED TAX ASSETS AND LIABILITIES

Movements on the deferred tax assets and liabilities accounts are as follows

	Company		Group	
	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
At 1 January asset	£ 45	£ 54	£ 57	£ 84
Income statement (charge)/credit	9	(6)	8	(23)
Foreign currency translation adjustment	(1)	(3)	(2)	(4)
At 31 December asset	£ 53	£ 45	£ 63	£ 57

Notes to the consolidated financial statements for the year ended 31 December 2011

21 DEFERRED TAX ASSETS AND LIABILITIES continued

Deferred income tax assets and liabilities are attributable to the following items

	Company		Group	
As at 31 December	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
Deferred income tax asset				
Accelerated tax depreciation	£ 22	£ 22	£ 22	£ 22
Tax losses	30	29	30	29
Loss reserves and other temporary differences	21	23	32	36
Deferred income tax asset	£ 73	£ 74	£ 84	£ 87
Deferred income tax liability				
Accelerated tax depreciation	£ (14)	£ (32)	£ (14)	£ (32)
Tax losses	-	6	-	6
Loss reserves and other temporary differences	(6)	(3)	(7)	(4)
Deferred income tax liability	£ (20)	£ (29)	£ (21)	£ (30)
At 31 December asset	£ 53	£ 45	£ 63	£ 57

Deferred tax assets and liabilities are netted on the balance sheet where such balances relate to the same tax authority. All deferred tax assets and liabilities in the balance sheet are classed as non current items.

The deferred tax credit in the income statement is comprised of the following temporary differences

	Company		Group	
	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
Accelerated tax depreciation	£ 18	£ (2)	£ 18	£ (2)
Tax losses	(6)	30	(6)	30
Loss reserves and other temporary differences	(3)	(34)	(4)	(51)
Income statement (charge)/credit	£ 9	£ (6)	£ 8	£ (23)

The main rate of UK corporation tax was reduced from 28 per cent to 26 per cent from 1 April 2011. This change was substantively enacted on 29 March 2011. In addition a reduction to the main rate of corporation tax to 25 per cent from 1 April 2012 was also included in Finance Bill 2011. This was substantively enacted on 5 July 2011 and has been reflected in the deferred tax asset at 31 December 2011.

Further reductions to the main rate are proposed to reduce the rate by 1 per cent per annum to 23 per cent by 1 April 2014. These subsequent proposed changes to the main rate

had not been substantively enacted at the balance sheet date and, therefore, are not reflected in these financial statements. The estimated financial effect of these changes is not significant.

The deferred tax asset of £30m (2010 £29m) relates to tax losses arising in Spain. Under Spain's tax laws losses have an expiry of 18 years and none of the tax losses expire before 2028. Profit projections indicate that these losses are due to be utilised before expiry.

Notes to the consolidated financial statements for the year ended 31 December 2011

22 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets at 31 December were as follows

	Company						Group							
	Goodwill		Software		Total		Software		Total					
		Internally generated		Externally acquired				Internally generated		Externally acquired				
	£ mil	£ mil	£ mil	£ mil	£ mil		£ mil	£ mil	£ mil	£ mil	£ mil			
Cost														
At 1 January 2010	£	212	£	24	£	20	£	256	£	24	£	20	£	44
Disposals		-		(1)		(4)		(5)		(1)		(4)		(5)
At 31 December 2010 / 1 January 2011	£	212	£	23	£	16	£	251	£	23	£	16	£	39
Additions		-		9		1		10		9		1		10
Disposals		-		(9)		-		(9)		(9)		-		(9)
At 31 December 2011	£	212	£	23	£	17	£	252	£	23	£	17	£	40
Accumulated amortisation and impairment														
At 1 January 2010	£	(64)	£	(12)	£	(15)	£	(91)	£	(12)	£	(15)	£	(27)
Amortisation charge for the year		-		(2)		(2)		(4)		(2)		(2)		(4)
Disposals		-		-		5		5		-		5		5
At 31 December 2010 / 1 January 2011	£	(64)	£	(14)	£	(12)	£	(90)	£	(14)	£	(12)	£	(26)
Amortisation charge for the year		-		(3)		(2)		(5)		(3)		(2)		(5)
Disposals		-		4		-		4		4		-		4
At 31 December 2011	£	(64)	£	(13)	£	(14)	£	(91)	£	(13)	£	(14)	£	(27)
Net book value at 31 December 2010														
	£	148	£	9	£	4	£	161	£	9	£	4	£	13
Net book value at 31 December 2011														
	£	148	£	10	£	3	£	161	£	10	£	3	£	13

'Other intangible assets' relate entirely to computer software development costs which are anticipated to generate future economic benefits to FCE. Software development costs are amortised to the income statement within 'Operating expenses' over the estimated useful life of the system as specified in Accounting Policy U item (ii) 'Other intangible assets'.

Goodwill recognised in the Company relates to the net assets of Ford Bank Germany, a former fully owned subsidiary. The Cash Generating Unit (CGU) is the Company's Germany segment.

An impairment review of the CGU is conducted annually on the basis of value in use using cash flow projections based on the Company's five year business plan forecasts and a discount rate indicative of recent pricing experienced by FCE in the market.

Key assumptions within the five year business plan forecasts include:

- Automotive industry sales, Ford's share of those sales and FCE's new contracts as a percentage of those sales,
- Market borrowing rates,
- Credit loss and vehicle residual value performance

These assumptions are based on historical experience and expectations of future changes in the market. Beyond the five year business plan period, the estimated growth rate used is based on local inflationary expectations.

If the 'Profit before tax' assumption used in the five year business plan forecast for the CGU were to be reduced by 10% per year, the CGU's goodwill would not be impaired.

Notes to the consolidated financial statements for the year ended 31 December 2011

23 INVESTMENT IN A JOINTLY CONTROLLED ENTITY

FCE's joint venture Forso is a regulated Swedish company with branch operations in Denmark and Norway and a subsidiary located in Finland. It is 50% less one share owned by Saracen Holdco Ab, a fully owned FCE subsidiary. FCE's interests in Forso are reported in the balance sheet within the caption 'Investment in a jointly controlled entity'. Changes in the value of the investment are detailed in Note 43 'Related party transactions'.

The remaining shareholding of Forso is owned by CA Consumer Finance, a consumer credit subsidiary of Crédit Agricole S.A.

The Board of Directors of Forso is composed of eight Directors and both parties to the joint venture are equally represented. A quorum requires at least two thirds of the Directors to be present and that both parties are equally represented. All business arising at the Board meeting shall be determined by a resolution passed by a favourable vote of at least two thirds of all Directors.

Forso is a regulated institution in Sweden and is required among other things to maintain minimum capital reserves.

Summarised financial information of FCE's share of a jointly controlled entity based on the management accounts for the year ended 31 December 2011 is set out below.

As at 31 December	2011 £ mil	2010 £ mil
Current assets	£ 283	£ 278
Long term assets	295	304
Total assets	£ 578	£ 582
Current liabilities	£ 316	£ 344
Long term liabilities	217	195
Total liabilities	£ 533	£ 539
Revenue	£ 40	£ 33
Operating expenses	(32)	(25)
Profit before tax	£ 8	£ 8
Income tax expense	£ (2)	£ (2)
Share of profit of a jointly controlled entity	£ 6	£ 6

24 INVESTMENTS IN GROUP UNDERTAKINGS

Investments in group undertakings at 31 December were as follows:

	Company	
As at 31 December	2011 £ mil	2010 £ mil
Net book value at 1 January	£ 339	£ 63
Additional investment in group undertakings	-	276
Redemption of shares in subsidiary	-	-
Capital repayment	-	-
Net book value at 31 December	£ 339	£ 339
Current	£ -	£ -
Non-current	339	339
Net book value at 31 December	£ 339	£ 339
Investment in banks included in above	£ 7	£ 7

The 'investment in banks' relates to FCE Bank Polska S.A. which as a regulated bank is required, among other things, to maintain minimum capital reserves.

Notes to the consolidated financial statements for the year ended 31 December 2011

24 INVESTMENTS IN GROUP UNDERTAKINGS continued

List of Consolidated companies

Subsidiary undertakings				
Entity	Country of incorporation	Principal activity	Accounting reference date	Ownership
FCE Leasing (Holdings) Limited	England and Wales	Holding company	31 December	100%
FCE Leasing Limited *	England and Wales	Non trading	31 December	100%
Ford Automotive Leasing Limited *	England and Wales	Non trading	30 September	100%
Mentpoint Limited	England and Wales	Non trading	30 June	100%
Primus Automotive Financial Services Limited	England and Wales	Dormant	31 December	100%
Volvo Car Finance Limited	England and Wales	Finance company	31 December	100%
FCE Credit s r o	Czech Republic	Finance company	31 December	100%
FCE Credit Hungary Zrt	Hungary	Finance company	31 December	100%
FCE Services Kft *	Hungary	Finance company	31 December	100%
FCE Bank Polska S.A.	Poland	Bank	31 December	100%
FCE Credit Polska S.A.	Poland	Finance company	31 December	100%
Saracen Holdco Ab	Sweden	Holding company	31 December	100%
*subsidiaries indirectly owned by the Company				
Special Purpose Entities (SPE)*				
Entity	Country of incorporation	Assets securitised or SPE type	Accounting reference date	Ownership
Active Retail SPE's				
Globaldrive Receivables Trustee (UK) Two Limited	England	UK Retail - receivables trustee	31 December	0%
Globaldrive (UK) Variable Funding I plc	England	UK Retail	31 December	0%
Globaldrive (Italy) IVS R L	Italy	Italy Retail	31 December	0%
Globaldrive Auto Receivables 2008 B B V	Netherlands	Germany Retail	31 December	0%
Globaldrive France 2	France	France Retail/Lease	31 December	0%
Globaldrive (UK) Variable Funding II plc	England	UK Retail	31 December	0%
Globaldrive Auto Receivables 2009 B B V	Netherlands	Germany Retail	31 December	0%
Globaldrive Auto Receivables 2009 C B V	Netherlands	Germany Retail	31 December	0%
Globaldrive Auto Receivables 2009 D B V	Netherlands	Germany Retail	31 December	0%
Globaldrive Holding Limited	England	UK VFN I-Holding Company	31 December	0%
Globaldrive Austria Retail Lease VFN 1 B V	Netherlands	Austria Retail/Lease	31 December	0%
Globaldrive Auto Receivables 2010 A B V	Netherlands	Germany Retail	31 December	0%
Globaldrive Germany Retail Lease VFN 1 B V	Netherlands	Germany Retail/Lease	31 December	0%
Globaldrive Spain VFN 2 B V	Netherlands	Spain Retail	31 December	0%
Globaldrive (UK) Retail 2011 plc	England	UK Retail	31 December	0%
Globaldrive Auto Receivables 2011 A B V	Netherlands	Germany Retail	31 December	0%
Globaldrive Netherlands VFN 2 B V	Netherlands	Netherlands Retail	31 December	0%
Globaldrive Germany Retail VFN 2011 B V	Netherlands	Germany Retail	31 December	0%
Active wholesale SPE's				
FCC Globaldrive Dealer Floorplan (France)	France	France Wholesale	31 December	0%
Globaldrive Dealer Floorplan Germany 2006 GmbH	Germany	Germany Wholesale	31 December	0%
Globaldrive UK Dealer Floorplan Holdings Limited	Jersey	UK Wholesale - Holding Company	31 December	0%
Globaldrive UK Dealer Floorplan Funding I Limited	Jersey	UK Wholesale	31 December	0%
Globaldrive UK Dealer Floorplan Receivables Trustee I Ltd	Jersey	UK Wholesale - receivables trustee	31 December	0%
Globaldrive Dealer Floorplan B V	Netherlands	Spain/France Wholesale master purchaser	31 December	0%
Globaldrive Dealer Floorplan Ireland B V	Netherlands	Ireland Wholesale	31 December	0%
Globaldrive Dealer Floorplan (Spain) TdA	Spain	Spain Wholesale	31 December	0%
Inactive retail SPEs (pending liquidation)				
Globaldrive Auto Receivables 2008 A B V	Netherlands	Germany Retail	31 December	0%

*Quasi-subsidiaries of the Companies recognised under SIC 12 and included within the consolidation of the Group accounts

Notes to the consolidated financial statements for the year ended 31 December 2011

25 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions at 31 December were as follows

As at 31 December	Company		Group	
	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
Due to banks and other financial institutions not in respect of securitisation				
Borrowings from banks and other financial institutions	£ 203	£ 62	£ 332	£ 182
Loans from European Investment Bank	-	367	-	367
Bank overdrafts	7	-	9	-
Sub-total	£ 210	£ 429	£ 341	£ 549
Due to banks and other financial institutions in respect of securitisation				
Obligations arising from securitisation of receivables	£ 995	£ 970	£ 4,031	£ 3,181
Loans from ECB secured with wholesale receivables	33	43	33	43
Sub-total	£ 1,028	£ 1,013	£ 4,064	£ 3,224
Total due to banks and other financial institutions	£ 1,238	£ 1,442	£ 4,405	£ 3,773
Current	£ 1,047	£ 1,022	£ 3,011	£ 2,418
Non-current	191	420	1,394	1,355
Total due to banks and other financial institutions	£ 1,238	£ 1,442	£ 4,405	£ 3,773

'Obligations arising from securitisation of receivables' reflects sales of receivables completed under private transactions. As the arrangements do not satisfy the requirements for derecognition under IAS 39 'Financial instruments, recognition and measurement', these receivables and the associated debt are not removed from the balance sheet. Where the Company has entered into a structured financing arrangement with a third party finance provider, and no SPE structure is involved, a liability is recognised within the Company balance sheet representing the proceeds received from the legal transfer of assets to the finance provider. This liability does not represent a legal obligation of the Company and is payable only out of collections on the underlying assets transferred to the finance provider or retained interests.

'Loans from ECB' represents short-term funding received under the ECB's open market operations programme. The Company obtains funding under a longstanding credit claim programme using certain of its German wholesale receivables as collateral. The fair value of collateral pledged as at 31 December 2011 was £66 million (31 December 2010: £77 million).

'Loans from European Investment Bank' (EIB) partially support a number of different projects relating to FCE's automotive partners, which have been assigned to the Company. The EIB loans are supported by guarantees and letters of credit provided by financial institutions on behalf of the Company to the EIB and deposits made by the Company as detailed in Note 11 'Cash and advances'. The EIB loans have been repaid in full as at 31 December 2011.

FCE's management have not identified any defaults on principal or interest or other breaches with respect to FCE's liabilities during the year ended 31 December 2011 and 31 December 2010.

Notes to the consolidated financial statements for the year ended 31 December 2011

26 CORPORATE DEPOSITS

Corporate deposits at 31 December were as follows

As at 31 December	Company		Group	
	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
Dealer deposits	£ 50	£ 49	£ 50	£ 49
Total corporate deposits	£ 50	£ 49	£ 50	£ 49
Current	£ 50	£ 49	£ 50	£ 49
Non current	-	-	-	-
Total corporate deposits	£ 50	£ 49	£ 50	£ 49

'Dealer deposits' include amounts utilised to mitigate exposure concentrations. In the event of default by the counterparty the deposits received can be offset against the amounts due to the Company.

The deposits are available for use in the Company's day to day operations and have therefore not been separately reported within Note 11 'Cash and advances'.

Notes to the consolidated financial statements for the year ended 31 December 2011

27 DUE TO PARENT AND RELATED UNDERTAKINGS

Due to parent and related undertakings at 31 December were as follows

As at 31 December	Company		Group	
	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
Senior Debt				
Deposits received from FCI	£ 325	£ 125	£ 325	£ 125
Principal amounts due to parent undertakings	£ 325	£ 125	£ 325	£ 125
Deposits received from related undertakings	309	319	330	347
Deposits received from subsidiary undertakings	671	667	-	-
Total senior debt	£ 1,305	£ 1,111	£ 655	£ 472
Net cash proceeds from the sale of receivables	3,923	3,570	-	-
Accounts payable to related undertakings	192	696	162	63
Accrued interest	4	5	4	5
Due to parent and related undertakings	£ 5,424	£ 5,382	£ 821	£ 540
Current	3,170	3,903	821	540
Non-current	2,254	1,479	-	-
Due to parent and related undertakings	£ 5,424	£ 5,382	£ 821	£ 540

'Deposits received from FCI' and 'Deposits received from related undertakings' include amounts utilised to mitigate certain exposure concentrations from external and related counterparties. In the event of default by these counterparties the deposits received can be offset against the amounts due to the Company. The deposits include £500 million (2010: £311 million) as collateral in support of guarantees provided by the Company in respect of obligations of Ford in Romania. For further details on the guarantees refer to Note 35 'Contingent liabilities'.

All deposits received are available for use in the Company's day to day operations and have therefore not been separately reported within Note 11 'Cash and advances'.

'Net cash proceeds from the sale of receivables' represents proceeds received from the transfer of assets to SPEs. This liability is reported net of retained interests and is not the legal obligation of the Company and is payable only out of collections on the underlying assets transferred to the finance provider or retained interests.

'Accounts payable to related undertakings' include balances generated in the ordinary course of business. Such balances are typically settled on a daily or monthly basis.

'Accrued interest' relates to interest due on 'Total senior debt'.

Other amounts due to Ford Credit and FCI are reported within Note 30 'Subordinated loans'.

In 2010, certain amounts were recorded within 'Accounts payable to related undertakings' relating to amounts payable between the Company and its subsidiaries. During 2011 these amounts have been reclassified in accordance with IAS 39.

Notes to the consolidated financial statements for the year ended 31 December 2011

28 DEBT SECURITIES IN ISSUE

Details of the public debt funding programmes as at 31 December are as follows

As at 31 December	Company		Group	
	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
Programme (Year launched) - amount listed debt:				
Euro Medium Term Note (1993) - US\$12 billion				
- European Medium Term Notes (excludes Continuously Available Retail Securities)	£ 3,635	£ 4,144	£ 3,635	£ 4,144
Sub-total Euro Medium Term Notes	£ 3,635	£ 4,144	£ 3,635	£ 4,144
Commercial paper	£ -	£ -	£ 9	£ -
Obligations arising from securitisation	-	-	1,442	1,872
Sub-total listed debt	£ 3,635	£ 4,144	£ 5,086	£ 6,016
Unlisted debt				
Schuldschein (refer to definition below)	£ 13	£ 43	£ 13	£ 43
Debt securities in issue	£ 3,648	£ 4,187	£ 5,099	£ 6,059
Current	1,010	742	1,533	1,366
Non-current	2,638	3,445	3,566	4,693
Debt securities in issue	£ 3,648	£ 4,187	£ 5,099	£ 6,059
Analysis of debt securities in issue				
Unsecured borrowings	3,648	4,187	3,657	4,187
Obligations arising from the sale of receivables	-	-	1,442	1,872
Debt securities in issue	£ 3,648	£ 4,187	£ 5,099	£ 6,059

The Company's EMTN programme has an issuance limit of US \$12 billion (or the equivalent in other currencies). The EMTN Base Prospectus, originally dated 21 January 2011 and subsequently renewed 13 January 2012, contains information relating to all notes, including Retail Securities Notes issued under the EMTN programme are listed on the Official List of the Luxembourg Stock Exchange and are admitted for trading on the Luxembourg Stock Exchange's regulated market. The Luxembourg's Stock Exchange website address is provided on page 128. The EMTN programme includes:

- 'Continuously Available Retail Securities' which may be issued from time to time to retail investors on a continuously available basis,
- 'Other European Medium Term Notes' due to non-retail investors

During 2011 the Company completed the following public debt issuances:

- Primary securitisation issuance in June 2011 for EUR 508 million (approximately £ 440 million)

- EMTN issuance in May 2011 for EUR 500 million (approximately £ 446 million) which matures January 2015

During the year the Company repurchased €191 million (approximately £169 million) of debt issued under the EMTN programme in August 2008 and due to mature in January 2012.

'Commercial paper' reflects a six month money market security issuance by the Group's Polish subsidiary.

'Obligations arising from securitisation' reflects sales of receivables completed under externally placed public transactions. As the arrangements do not satisfy the requirements for derecognition in accordance with IAS 39 'Financial instruments, recognition and measurement', the sold receivables and the associated debt remain on the Company's balance sheet. This debt is the legal obligation of the securitisation SPEs and is not the legal obligation of the Company.

'Schuldschein' are certificates of indebtedness governed under German law.

Notes to the consolidated financial statements for the year ended 31 December 2011

29 OTHER LIABILITIES

As at 31 December	Company		Group	
	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
Accrued interest on debt	£ 207	£ 261	£ 207	£ 261
Trade payables	81	120	85	121
Accrued liabilities and deferred income	70	83	76	99
Operating lease subvention	41	25	41	25
Total other liabilities	£ 399	£ 489	£ 409	£ 506
Current	£ 399	£ 489	£ 409	£ 506
Non current	-	-	-	-
Total other liabilities	£ 399	£ 489	£ 409	£ 506

'Operating lease subvention' relates to interest supplements and other support payments from related parties (including Ford and affiliated manufacturers) provided for operating leases. The amount deferred is recognised in 'Other operating income' over the term of the lease.

Notes to the consolidated financial statements for the year ended 31 December 2011

30 SUBORDINATED LOANS

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

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

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

The loans from Ford Credit are denominated in Euro. The loans from FCI are denominated in US dollars and are drawn under a US\$1 billion subordinated loan facility. This facility enables the Company to respond quickly if additional capital support is required. Under the agreed terms, the Company is able to take drawdowns up to the maximum principal amount and any undrawn amount of the facility will be available until it is cancelled either by the Company or FCI. Foreign currency derivatives are used to minimise currency risks on US dollar denominated funding.

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

Notes to the consolidated financial statements for the year ended 31 December 2011

31 ORDINARY SHARES AND SHARE PREMIUM

For the year ended 31 December	Company and Group	
	2011 £ mil	2010 £ mil
Allotted, called up and fully paid at 1 January and 31 December		
614,384,050 Ordinary shares of £1 each (2010 614,384,050)	£ 614	£ 614
Share premium at 1 January and 31 December	£ 352	£ 352

There was no change to the issued share capital of the Company during the year. The share premium account is regarded as permanent capital of the Company and is not available for distribution. No Director, officer or employee owns or holds shares or owns or holds options over shares in the Company or its subsidiaries.

Since 10 October 2000, FCI has remained the beneficial owner of the entire issued share capital of the Company. One share is held by Ford Credit on trust for FCI. Since 1 January 2003 the total issued share capital of the Company has been £614,384,050 comprising 614,384,050 Ordinary £1 shares.

Support agreement

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

The 5 year agreement provides for the termination date to be extended automatically on 1 February of each year for an additional one-year period ending on 31 January of the following year. Either party can give notice one month before automatic extension of their wish to prevent the automatic extension of the termination date and terminate the agreement, in which case it will terminate as of the termination date set on the last preceding extension date. However as neither party provided written notice on subsequent 1 February anniversaries, the termination date was automatically extended each time by one year and at 23 March 2012 was 31 January 2017.

32 DIVIDEND PER SHARE

FCE paid an interim dividend of £370 million (2010 £390million) to its sole shareholder FCI in May 2011. The dividend equated to approximately 60.22 pence per ordinary share.

Notes to the consolidated financial statements for the year ended 31 December 2011

33 COMPONENTS OF CAPITAL

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

For the year ended 31 December		Group	
	Notes	2011 £ mil	2010 £ mil
Tier 1			
Share capital	31	£ 614	£ 614
Share premium	31	352	352
Retained earnings		1,212	1,471
Valuation adjustments to retained earnings		(45)	(75)
Profit after tax		123	161
Goodwill and intangible assets	22	(13)	(13)
Total Tier 1		£ 2,243	£ 2,510
Tier 2			
Collective impairment allowance		£ 63	£ 82
Qualifying subordinated loans	30	220	242
Total tier 2		£ 283	£ 324
Total tier 3		£ -	£ -
Deductions			
Investment in a jointly controlled entity		£ (46)	£ (45)
Total deductions		£ (46)	£ (45)
Total regulatory capital		£ 2,480	£ 2,789
Capital ratios			
Tier 1 ratio (%)		21.1%	21.2%
Total capital ratio (%)		23.4%	23.6%

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

- Tier 1 comprising of share capital, share premium, retained earnings and reserves created by appropriations of retained earnings. The book value of intangible assets is deducted in arriving at Tier 1 capital.
- Tier 2 comprising of qualifying subordinated loans and collective impairment allowances relating to loans and advances to customers and operating leases.
- FCE holds no Tier 3 capital. As FCE does not operate a trading book, the application of Tier 3 capital would be limited to supporting market risk requirements outside of trading book activities.
- Deductions comprising of investment in the Forso JV.

Retained earnings included within regulatory capital are net of tax, dividends and other appropriations. Further valuation adjustments to retained earnings are made to exclude the historical impact of unrealised fair value adjustments to financial instruments.

Capital ratios are calculated against risk weighted exposures as disclosed in 'Key Financial Ratios' on page 127. Prior to the audit of this annual report and accounts, FCE excludes the unaudited profit for the financial year from regulatory submissions.

For the purposes of calculating the amount of subordinated debt which may be included in capital resources, the principal amount must be amortised on a straight line basis during the final five years to maturity, for further details please see Note 30 'Subordinated loans'.

Notes to the consolidated financial statements for the year ended 31 December 2011

33 COMPONENTS OF CAPITAL continued

Tier 1 capital has decreased in 2011 to £2,243 million (2010 £2,510 million) primarily resulting from the payment of a dividend of £370m (2010 £390 million), partially offset by the inclusion of profit after tax, net of foreign currency translation differences, as detailed in the 'Consolidated statements of changes in equity'

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

FCE is holding more capital than is required by either the regulatory minimum or FCE's internal risk-based capital policy. FCE's policy is to manage its capital base to targeted levels that meet all regulatory requirements and support anticipated changes in assets and foreign currency exchange rates. For further details refer to 'Capital and Funding' section which commences on page 16.

FCE Bank Polska S.A. is a regulated bank and is also subject to regulatory capital requirements requiring maintenance of certain minimum capital levels. During the two years being reported, the individual entities within FCE complied with all of the externally imposed capital requirements to which they are subject to.

Notes to the consolidated financial statements for the year ended 31 December 2011

34 RETIREMENT BENEFIT OBLIGATIONS

Total retirement benefit costs are detailed below and are charged to 'Operating expenses'

As at 31 December	Company		Group	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Pension plans accounted for as defined contribution plans				
Defined benefit plans operated by Ford	£ 11,451	£ 21,356	£ 11,451	£ 21,356
Defined contribution plans in which FCE participates	1,975	1,796	1,991	1,811
Restructuring cost retirement benefit	3,074	1,868	3,074	1,868
Total expensed as defined contribution plans	£ 16,500	£ 25,020	£ 16,516	£ 25,035
Defined benefit plans operated by the Company	£ 131	£ 187	£ 131	£ 187
Total retirement benefit expense	£ 16,631	£ 25,207	£ 16,647	£ 25,222
Analysis of retirement benefit expense				
Retirement benefit expense	£ 13,557	£ 23,339	£ 13,573	£ 23,354
Restructuring cost retirement benefit	3,074	1,868	3,074	1,868
Total retirement benefit expense	£ 16,631	£ 25,207	£ 16,647	£ 25,222

(I) Accounting methodology utilised for accounting for net defined benefit costs of plans operated by Ford

In the locations detailed on the next page, Company employees participate in group administration defined benefit pension plans operated by Ford. As there is no contractual agreement or stated policy for charging the net defined benefit costs in accordance with IAS 19 'Employee Benefits', the Company accounts for such schemes as defined contribution plans and recognises a cost equal to contributions payable for the period. The Company does not recognise the plans on its Balance sheet.

(II) FCE locations which do not operate company pension schemes

FCE employees in Greece, Hungary and Poland have no company pension schemes.

Notes to the consolidated financial statements for the year ended 31 December 2011

34 RETIREMENT BENEFIT OBLIGATIONS continued

(III) Details of pension schemes operated by Ford in which the Company's employees participate

The following tables detail the pension schemes operated by Ford in which the Company employees participate. The benefit obligation and plan assets as displayed below are the benefits and obligations of the respective pension schemes.

FCE's policy for funded pension plans is to contribute annually, at a minimum, amounts required by applicable laws and regulations. From time to time, FCE makes contributions beyond those legally required.

Company and Group 2011	Details of Ford operated plans						FCE's participation		
	Funding			Pension Plan Participants			Company Participants		Contributions recognised in year
	Plan Assets £ mil	Plan Obligations £ mil	Surplus/ (Deficit) £ mil	Current Employees	Retirees	Total	Current Employees	% of current employees	£'000
Belgium	£ 70	(98)	(28)	413	298	711	28	6.8	115
Germany - Foveruka *	2,196	(2,463)	(267)	19,766	22,826	42,592	555	2.8	4,215
Germany - Exempt **	-	(1,702)	(1,702)	1,149	4,534	5,683	29	2.5	543
Germany - Management**	-	(293)	(293)	3	407	410	-	-	-
Ireland	56	(50)	6	39	272	311	13	33.3	3,287
Netherlands	122	(100)	22	89	1,130	1,219	21	23.6	115
Portugal	5	(6)	(1)	69	556	625	27	39.1	-
UK - Salaried	3,154	(3,265)	(111)	4,057	11,383	15,440	527	13.0	5,562
UK - Senior staff	347	(393)	(46)	158	412	570	11	7.0	688
Total	£ 5,950	(8,370)	(2,420)	25,743	41,818	67,561	1,211	4.7	14,525

Company and Group 2010	Details of Ford operated plans						FCE's participation		
	Funding			Pension Plan Participants			Company Participants		Contributions recognised in year
	Plan Assets £ mil	Plan Obligations £ mil	Surplus/ (Deficit) £ mil	Current Employees	Retirees	Total	Current Employees	% of current employees	£'000
Belgium	£ 153	(184)	(31)	422	1,215	1,637	29	6.9	£ 431
Germany - Foveruka *	2,171	(2,428)	(257)	20,181	22,802	42,983	599	3.0	4,307
Germany - Exempt **	-	(1,775)	(1,775)	1,170	4,563	5,733	29	2.5	546
Germany - Management**	-	(319)	(319)	3	406	409	-	-	-
Ireland	56	(49)	7	45	280	325	13	28.9	988
Netherlands	123	(108)	15	97	1,060	1,157	27	27.8	84
Portugal	6	(8)	-	71	564	635	28	39.4	-
UK - Salaried	2,942	(2,838)	104	4,074	11,526	15,600	604	14.8	14,251
UK - Senior staff	320	(319)	1	170	407	577	10	5.9	1,918
UK - Volvo***	-	-	-	-	-	-	-	-	699
Total	£ 5,771	(8,026)	(2,255)	26,233	42,823	69,056	1,339	5.1	£ 23,224

* For a description of the Foveruka plan refer to the 'Glossary of defined terms' within 'Other Information'.

** Ford Werke GmbH maintains a balance sheet reserve for the Germany Ford Exempt and management plans as at 31 December 2011 of £1,632 million (2010: £1,657 million).

*** FCE ceased participation in the Volvo UK plan on 31 January 2010.

Notes to the consolidated financial statements for the year ended 31 December 2011

34 RETIREMENT BENEFIT OBLIGATIONS continued

(IV) Further details of the most significant pension schemes operated by Ford in which the Company's employees participate.

Summary of defined benefit plans operated by Ford	2011		2010		2009		2008		2007	
	UK Ford Salaried £ mil	German Foveruka £ mil	UK Ford Salaried £ mil	German Foveruka £ mil	UK Ford Salaried £ mil	German Foveruka £ mil	UK Ford Salaried £ mil	German Foveruka £ mil	UK Ford Salaried £ mil	German Foveruka £ mil
Plan assets	£ 3,154	2,196	£ 2,942	£ 2,171	£ 2,628	£ 2,149	£ 2,369	£ 2,228	£ 2,809	£ 1,634
Plan obligations	(3,265)	(2,463)	(2,838)	(2,428)	(2,644)	(2,421)	(2,625)	(2,404)	(2,661)	(1,840)
Surplus/(Deficit)	£ (111)	(267)	£ 104	£ (257)	£ (16)	£ (272)	£ (256)	£ (176)	£ 148	£ (206)

The most significant retirement benefit obligations to the Company relate to the 'UK Ford Salaried' and 'German Foveruka' pension schemes. Both of these schemes are

operated by Ford, are final salary pension schemes and are accounted for by the Company as defined contribution plans. Further details of these schemes are disclosed below.

Changes in present value of the defined benefit plan obligations	2011		2010	
	UK Ford Salaried £ mil	German Foveruka £ mil	UK Ford Salaried £ mil	German Foveruka £ mil
Opening present value	£ (2,838.0)	(2,428.3)	£ (2,644.0)	(2,421.0)
Service cost	(48.5)	(48.6)	(37.5)	(50.0)
Interest cost	(155.0)	(124.9)	(150.2)	(126.6)
Actuarial (losses)/gains	(350.7)	(24.8)	(144.3)	8.6
Plan amendments	(12.6)	-	(0.8)	-
Losses on curtailments	-	(4.3)	-	(6.0)
Member Contributions	(5.4)	-	(5.2)	-
Past service cost	-	-	-	-
Translation adjustment	-	74.5	-	71.9
Benefits paid	145.0	93.8	144.0	94.8
Closing present value	£ (3,265.2)	(2,462.6)	£ (2,838.0)	(2,428.3)

The pension plans on which the defined benefit obligation arises are wholly or partly funded

Changes in fair value of plan assets	2011		2010	
	UK Ford Salaried £ mil	German Foveruka £ mil	UK Ford Salaried £ mil	German Foveruka £ mil
Opening fair value	£ 2,941.6	2,170.7	£ 2,627.7	£ 2,149.4
Expected return	219.2	108.2	204.3	106.8
Actuarial gains/(losses)	(24.3)	(20.6)	111.8	(25.8)
Contributions by employer	157.1	98.0	136.6	99.9
Member contributions	5.4	-	5.2	-
Translation adjustment	-	(66.7)	-	(64.8)
Settlements	-	-	-	-
Benefits paid	(145.0)	(93.8)	(144.0)	(94.8)
Closing fair value	£ 3,154.0	2,195.8	£ 2,941.6	£ 2,170.7

The Company's best estimate of contributions to be paid during the 2012 annual reporting period is £14.5 million related to the 'UK Ford Salaried' plan and £3.8 million related to the 'German Foveruka' plan.

Notes to the consolidated financial statements for the year ended 31 December 2011

34 RETIREMENT BENEFIT OBLIGATIONS continued

(IV) Further details of the most significant pension schemes operated by Ford in which the Company's employees participate (continued):

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption

yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

Composition of plan assets	2011		2010	
	UK Ford Salaried %	German Foveruka %	UK Ford Salaried %	German Foveruka %
Insurance Policy	-	100	-	100
Equities	39	-	51	-
Bonds	47	-	43	-
Other	14	-	6	-
Total	100	100	100	100

Principle actuarial assumptions at the balance sheet date		2011		2010	
		UK Ford Salaried %	German Foveruka %	UK Ford Salaried %	German Foveruka %
Discount rate		4.80	5.50	5.50	5.30
Expected rate of return on plan assets		6.15	5.00	7.75	5.00
Future salary increases		4.00	2.60	4.20	2.60
Future pension increases		2.10	1.60	2.50	1.60
Future pension increases (discretionary)		-	-	-	-
The average life expectancy in years of a member retiring at age 65 on the balance sheet date is as follows		Years	Years	Years	Years
	Male	21.3	19.0	18.8	18.8
	Female	23.8	23.0	22.0	22.9
The average life expectancy in years of a member retiring at age 65, 20 years after the balance sheet date is as follows		Years	Years	Years	Years
	Male	22.3	21.7	19.5	21.5
	Female	25.0	25.6	22.7	25.5

(V) Defined contribution plans and other plans accounted for as defined contribution plans in which FCE employees participate

Contributions recognised in year	Company		Group	
	2011 £'000s	2010 £'000s	2011 £'000s	2010 £'000s
Czech	£ -	£ -	£ 16	£ 15
Germany	4	-	4	-
Italy	1,860	1,708	1,860	1,708
Spain	86	88	86	88
UK	25	-	25	-
Total contributions recognised in year	£ 1,975	£ 1,796	£ 1,991	£ 1,811

Notes to the consolidated financial statements for the year ended 31 December 2011

34 RETIREMENT BENEFIT OBLIGATIONS continued

(VI) Defined benefit plans operated by the Company

In the Company's Austrian, Belgian, French and Spanish locations certain of the Company's employees participate in defined benefit plans

A summary of total participants and expenses recognised for defined benefit plans operated by the Company is provided in the following table

	Company participants		Expenses recognised	
	2011	2010	2011 £'000s	2010 £'000s
Defined benefit plans				
Austria	6	6	35	14
Belgium	6	6	-	23
France	102	102	100	147
Spain	27	36	(4)	3
Total	141	150	131	186

Actuarial valuation reports have been obtained for the years to 31 December as detailed below. The reports are used to determine the contributions made by the Company into each scheme. A summary is provided in the following tables

Austria	2011 £ mil	2010 £ mil	2009 £ mil	2008 £ mil	2007 £ mil
Plan assets	£ -	£ -	£ -	£ -	£ -
Plan obligations	(0.2)	(0.2)	(0.2)	(0.5)	(0.4)
Surplus/(Deficit)	£ (0.2)	£ (0.2)	£ (0.2)	£ (0.5)	£ (0.4)

In the Company's Austrian branch an insurance policy valued at £0.1 million (2010: £0.1 million) is held which does not qualify as a plan asset

Belgium	2011 £ mil	2010 £ mil	2009 £ mil	2008 £ mil	2007 £ mil
Plan assets	£ 0.5	£ 0.5	£ 0.6	£ 1.0	£ 0.8
Plan obligations	(0.5)	(0.4)	(0.6)	(0.9)	(0.6)
Surplus/(Deficit)	£ -	£ 0.1	£ -	£ 0.1	£ 0.2

France	2011 £ mil	2010 £ mil	2009 £ mil	2008 £ mil	2007 £ mil
Plan assets	£ -	£ -	£ -	£ -	£ -
Plan obligations	(0.9)	(0.8)	(0.9)	(1.0)	(0.7)
Surplus/(Deficit)	£ (0.9)	£ (0.8)	£ (0.9)	£ (1.0)	£ (0.7)

The Company's French branch has two defined benefit plans. In one of the plans at each employee's retirement date, the Company purchases an annuity and transfers the pension liability for the retiree to the insurer.

Spain	2011 £ mil	2010 £ mil	2009 £ mil	2008 £ mil	2007 £ mil
Plan assets	£ 3.8	£ 7.3	£ 6.6	£ 7.1	£ 4.3
Plan obligations	(4.0)	(7.6)	(6.9)	(7.3)	(4.5)
Surplus/(Deficit)	£ (0.2)	£ (0.3)	£ (0.3)	£ (0.2)	£ (0.2)

Notes to the consolidated financial statements for the year ended 31 December 2011

35 CONTINGENT LIABILITIES

As at 31 December	Company		Group	
	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
Guarantees provided on behalf of Ford Romania	£ 457	£ 332	£ 457	£ 332
Spanish Ministry of Industry and regional authorities	33	38	33	38
Customs authorities, revenue commissioners and agencies	20	12	20	12
Total guarantees provided on behalf of Ford	£ 510	£ 382	£ 510	£ 382
Indemnities issued to custom authorities and revenue commissioners	£ -	£ 4	£ -	£ 4
Other guarantees provided to third parties	2	10	2	10
Guarantees prior to credit risk mitigation	£ 512	£ 396	£ 512	£ 396
Credit risk mitigation actions				
Mitigation from collateral lodged in support of Romanian guarantees	£ (457)	£ (311)	£ (457)	£ (311)
Guarantees after credit risk mitigation	£ 55	£ 85	£ 55	£ 85

'Guarantees provided on behalf of Ford' include debt and other financial obligations of Ford. Such arrangements are counter-indemnified by Ford and a fee is charged for the guarantee. Further details of the guarantees provided by the Company are detailed below.

- 'Romania' – FCE has guaranteed obligations of Ford in Romania pursuant to four guarantees with maximum potential payments of £457 million.

The Romania guarantees have been fully collateralised with deposits received from Blue Oval Holdings, a Ford UK subsidiary and FCI totalling £500m. This cash is available for use in FCE's daily operations and is recorded under Note 27 'Due to parent and related undertakings'. The expiration date of the guarantees is August 2012 and they could terminate on payment and/or cancellation of the obligations by Ford. A payment to the guaranteed party would be triggered by failure of Ford to fulfill its obligation covered by the guarantee.

- 'Spanish Ministry of Industry and regional authorities' relates to loans granted for investment in the Ford Valencia plant. These guarantees have been provided on behalf of Ford Espana SL to the Spanish Ministry of Industry and regional authorities.

- 'Customs authorities, revenue commissioners and agencies' relates to duties and registration taxes on imported vehicles and components provided to various European Customs Authorities.

The fair values of guarantees are recorded in the financial statements where material.

During the period, tax authorities in Germany continued audits relating to various aspects of prior period operations of FCE's German branch, particularly relating to transfer pricing and VAT. Discussions with the tax authorities are ongoing. FCE has considered the information currently available and believes that provisions made are adequate.

Notes to the consolidated financial statements for the year ended 31 December 2011

35 CONTINGENT LIABILITIES continued

Litigation and claims

Certain legal actions and claims are pending or may be instituted or asserted in the future against FCE concerning finance and other contractual relationships. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. FCE has established provisions for certain of the legal actions and claims where losses are deemed probable and reasonably estimable. It is reasonably possible that certain claims for

which accruals have not been established could be decided unfavourably to FCE and could require FCE to pay damages or make other expenditures in amounts or a range of amounts that cannot be estimated at 31 December 2011. FCE does not reasonably expect, based on internal analysis, that such matters would have a material effect on future financial statements for a particular year, although such an outcome is possible.

36 COMMITMENTS

The Company extends commercial credit primarily to certain franchised dealers selling Ford brand vehicles in the form of approved lines of credit to purchase inventories of new and used vehicles. Such facilities considered as committed now total below £1 million. There are no external commitments with a maturity of one year or over.

The Company also provides a committed loan facility to its Polish subsidiary FCE Bank Polska S.A. of Polish Zloty PLN 200 million (2011: £38 million, 2010: £43 million). This facility was undrawn as at 31 December 2011 (Undrawn as at 31 December 2010). The facility enables the subsidiary to respond quickly if additional funding is required.

37 FUTURE LEASE COMMITMENTS

As at 31 December	Company		Group	
	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
The future minimum payments under non cancellable operating leases are as follows:				
Not later than one year	£ 6	£ 6	£ 6	£ 6
Later than one year and not later than five years	13	14	13	14
Later than five years	7	4	7	4
Future lease commitments	£ 26	£ 24	£ 26	£ 24

Notes to the consolidated financial statements for the year ended 31 December 2011

38 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 contractual terms. These products are classified as 'loans and advances' under IAS 39. The Company could also incur

a credit loss if the counterparty to an investment, interest rate or foreign currency derivative with FCE defaults. These exposures are classified as 'financial assets held at fair value through profit or loss' under IAS 39.

38a) Loans and advances

The amount which best represents the maximum exposure to credit risk within loans and advances without taking account of any collateral held or other credit enhancements as at 31 December 2011 is £9,811 million, (2010: £10,818 million) being the value of net loans and advances to customers as disclosed in Note 15.

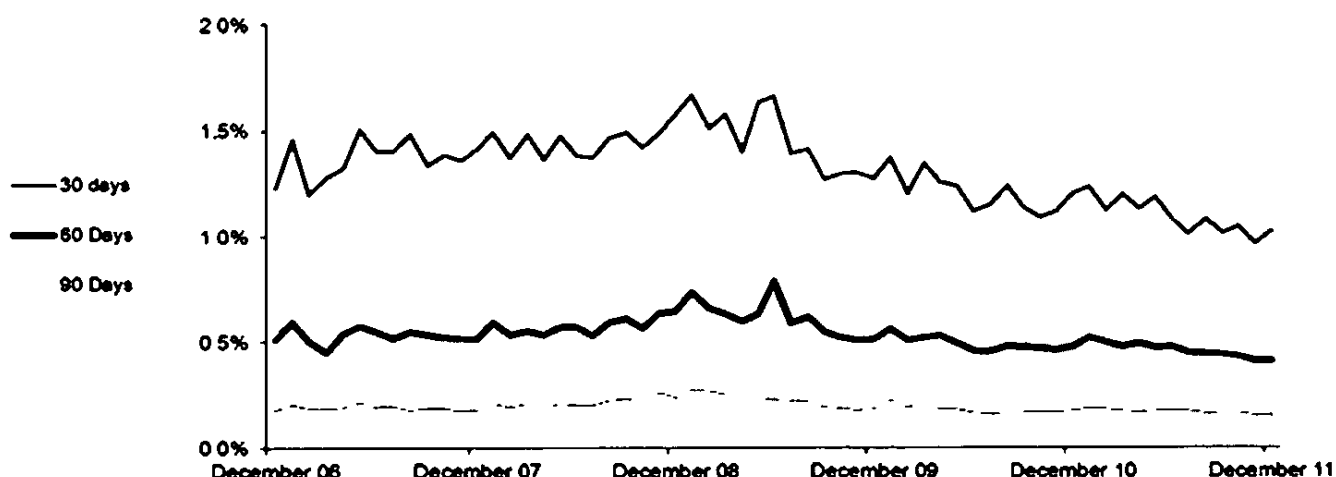
Management information on the credit quality of FCE's loans and advances is provided by product segment in the following sections.

Retail

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

Detailed below is a retail delinquency monthly trend graph for the last five years which highlights the percentage of retail contracts which are 30, 60 and 90 days overdue. The graph highlights that the upward trend in delinquencies peaked in the first half of 2009, since that time the delinquency trend has steadily improved. FCE's management considers that this improvement is a consequence of FCE's responsive approach to underwriting and servicing practices that has enabled the portfolio to perform well despite varying economic pressures.

Retail delinquency 5 year monthly trend



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

Notes to the consolidated financial statements for the year ended 31 December 2011

38 CREDIT RISK continued

Wholesale

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

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

The table below provides a high-level summary of dealer risk ratings. Financial and judgmental internal risk evaluation ratings are assigned to each dealer from 0 (best) to 9 (worst).

		Group	
For the year ended 31 December		2011	2010
	Note	£ mil	£ mil
Group I (risk rating 0-3)		£ 2,652	£ 2,869
Group II (risk rating 4-5)		1,163	1,043
Group III (risk rating 6-7)		783	855
Group IV (risk rating 8-9)		2	1
Total gross wholesale and other loans and advances	15	£ 4,600	£ 4,768
Percentage analysis			
Group I (risk rating 0-3)		57.66%	60.17%
Group II (risk rating 4-5)		25.28%	21.88%
Group III (risk rating 6-7)		17.02%	17.93%
Group IV (risk rating 8-9)		0.04%	0.02%

The Financial risk evaluation ratings are based upon the latest published annual audited accounts information which typically are received by FCE locations between 8 and 10 months following the end of the dealer financial year. As a consequence, the ratings reported above for 2011 are mainly based on 2010 audited accounting data.

As a result, FCE's management believes that the ratings reported for 2011 above reflect the decrease in 2010 vehicle sales and overall Ford market share. This is primarily due to the end of the favourable effect of scrappage programmes on smaller car sales, the decision by Ford to selectively reduce participation in low-margin business, and an increase in competitive discounts in a post-scrappage scheme market.

The percentages indicate that the proportion of Group I category dealers has decreased during 2011, primarily within Spain, Germany and Italy reflecting dealer operating results in 2010 that management consider marginally worsened. The Group II category has evidenced an increase during 2011 and this increase accounts primarily for the decrease seen within Group I. Group III and Group IV categories have remained stable.

The overall marginal deterioration seen for 2011 followed the improvement seen during 2010 which management believes primarily reflected the impact of the Government car scrappage programmes operated during 2009.

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

Notes to the consolidated financial statements for the year ended 31 December 2011

38 CREDIT RISK continued

Impairment

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

Retail financing contracts are individually impaired as soon as it is apparent and reasonable to conclude that a credit loss will arise and at no later than 120 days past due. 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 £36 million. The interest income on impaired financial receivables is under £1 million.

Collateral

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

Counterparty risk within loans and advances

FCE has an established wholesale counterparty limit policy based on levels of exposure and risk ratings. Reports on the largest concentrations are prepared monthly and are regularly reviewed at the Credit Policy and Credit Risk Committee as well as at each scheduled Board of Directors' meeting.

FCE's ten largest counterparty exposures including both amounts reported in loans and advances above and undrawn commercial credit facilities (refer to Note 36 'Commitments'), totalled £866 million (2010: £812 million). Deposits received from FCI (Note 27 'Due to parent and related undertakings') and other deposits (Note 26 'Corporate deposits') are utilised to mitigate exposure concentrations.

Renegotiated loans

The value of renegotiated loans being previously past due or impaired at 31 December 2011 was £1.2 million (2010: £0.3 million).

Notes to the consolidated financial statements for the year ended 31 December 2011

38 CREDIT RISK continued

38b) Financial assets held at fair value through profit or loss

Cash and advances

Cash and advances, which are invested with a number of highly rated counterparties, have increased to £2,767 million (2010 £2,094 million) which best represents the maximum exposure to credit risk in relation to cash and cash equivalents. FCE's five largest counterparty exposures included within Cash and advances total £1,687 million (2010 £975 million) and have long-term credit ratings of single-A or better. Included in this amount is £1,146 million (2010 £323 million) held with central banks and in government debt. Refer to Note 11 'Cash and advances' for further details.

Marketable securities

The purchase of marketable securities exposes FCE to the risk that a counterparty may default on repayment. When purchased, such securities are invested with a number of highly rated government counterparties. As at 31 December 2011, FCE has no investments in Marketable Securities (2010 £223 million). Refer to Note 12 'Marketable securities' for further details.

Derivative financial instruments

Use of derivatives exposes FCE to the risk that a counterparty may default on a derivative contract. FCE establishes exposure limits for each counterparty to minimise this risk and provide counterparty diversification.

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

The aggregate fair value of derivative instruments in asset positions on 31 December, 2011 is £163 million, representing the maximum potential loss at that date if all counterparties failed to perform as contracted. Master agreements in place with counterparties generally allow for netting of certain exposures, therefore, the actual loss recognised if all counterparties failed to perform as contracted would be significantly lower. Refer to Note 13 'Derivative financial instruments' for further details.

For details on the valuation of financial assets and liabilities at fair value, refer to Note 42 'Financial assets and financial liabilities'.

Notes to the consolidated financial statements for the year ended 31 December 2011

39 VEHICLE RESIDUAL VALUES

The following vehicle residual values relating to retail and operating leases, which are the responsibility of FCE, are included in 'Loans and advances to customers' and 'Property and equipment' respectively in the balance sheet

Group

As at 31 December

	Retail residual values	Operating lease residual values	2011	2010
Year in which the residual value will be recovered	£ mil	£ mil	£ mil	£ mil
Within 1 year	£ 239	£ 208	£ 447	£ 485
Between 1-2 years	345	-	345	351
Between 2-5 years	212	-	212	226
More than 5 years	-	-	-	-
Total residual values	£ 796	208	£ 1,004	£ 1,062

Company

As at 31 December

	Retail residual values	Operating lease residual values	2011	2010
Year in which the residual value will be recovered	£ mil	£ mil	£ mil	£ mil
Within 1 year	£ 239	£ 208	£ 447	£ 485
Between 1-2 years	345	-	345	351
Between 2-5 years	212	-	212	226
More than 5 years	-	-	-	-
Total residual values	£ 796	£ 208	£ 1,004	£ 1,062

Vehicle residual value risk is the possibility that the amount FCE obtains from returned vehicles will be less than the estimate of the expected residual value for the vehicle. As demonstrated in the tables above vehicle residual risk exposure within FCE predominantly relates to retail finance leases.

Retail residual values

The retail residual value figures included in the table above assume that all retail vehicles where FCE is subject to vehicle residual value risk will be returned. FCE is subject to vehicle residual value risk on certain retail or finance lease balloon payment products where the customer may choose to return the financed vehicle to FCE at the end of the contract. Residual values are established by reference to various sources of independent and proprietary knowledge. Guaranteed Minimum Future Values ('GMFV's) on retail plans are set below the future market value to protect customer equity and promote Trade Cycle Management products. FCE's normal policy is that the GMFV must be a minimum of 5 per cent below the future market value and is increased to 8 per cent for terms less than 24 months. This policy is a key factor behind the annual rate of return (for vehicles financed under retail finance plans where FCE is subject to residual value risk) being 1.2% (2010: 3.0%) of the maturing portfolio.

Residual value provisions are maintained to reflect the value of vehicle residual value risk within the financial statements. For further details refer to Accounting Policy C 'Critical accounting estimates', Accounting Policy Q 'Vehicle residual value provisions' and Note 17 'Provision for vehicle residual value losses'.

Operating lease residual values

All operating lease vehicles are subject to return at the end of the lease period unlike retail plans. FCE's exposure to operating lease has reduced following the outsourcing of the Full Service Leasing (FSL) portfolio in most European markets. The most significant operating lease portfolio remains in Germany which is the primary source of the operating lease residual value risk for FCE. For an additional discussion of vehicle residual value risk on operating leases, refer to Note 19 'Property and equipment' and Accounting Policy C 'Critical accounting estimates'.

Sensitivity analysis

If future resale values of FCE's existing portfolio of retail and operating lease vehicles were to decrease this would reduce income for retail vehicles and increase depreciation for operating leases. At 31st December 2011 if future resale values reduced by 1 per cent from the current resale values it is estimated this would increase the annual rate of return from the current position of 1.16% to 1.22% of the maturing portfolio and would have an adverse profit impact to the Company of approximately £3.3 million (2010: £2.1m).

Notes to the consolidated financial statements for the year ended 31 December 2011

40 FINANCIAL MARKET RISK

The objective of financial market risk management is to lock-in the financing margin while limiting the impact of changes in interest rate and foreign exchange rates. Interest rate and currency exposures are monitored and managed by FCE as an integral part of its overall risk management programme, which recognises the unpredictability of financial markets and seeks to reduce potential adverse effects on FCE's operating results.

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.

Note	Activity	Risk	Type of Derivative
40a)	Investment and funding in foreign currencies	Sensitivity to change in foreign currency exchange rates	- Cross currency interest rate swaps - Foreign currency forward contracts
40b)	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

Use of derivatives

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

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 policies are

- Prohibition of use for speculative purposes
- Prohibition of use of leveraged positions
- Requirement for regular in-depth exposure analysis
- Establish and document accounting treatment at onset of trade
- Establish exposure limits (including cash deposits) with counterparties
- Treasury employee's remuneration not being linked to individuals trading performance

The key derivative controls are

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

Management information on FCE's exposures to foreign currencies and interest rate risk is provided in the following sections

Notes to the consolidated financial statements for the year ended 31 December 2011

40a) CURRENCY RISK

In addition to the UK the Company operates active branches in ten other European countries and has subsidiaries in the Czech Republic, Hungary and Poland which provide a variety of wholesale, leasing and retail vehicle financing (see Note 24 'Investment in group undertakings'). The functional currency of the Group's and Company's operations outside of the UK is the Euro, with the exception of the Company's subsidiaries in the Czech Republic, Hungary and Poland and a retained liquidating portfolio in Norway

The main operating currencies are therefore Euro and Sterling. As FCE presents its consolidated financial statements in Sterling, these will be affected by foreign currency exchange rate movements between the Euro and Sterling. The Company does not hedge structural foreign currency investments in overseas operations as each investment is considered to be of a long term nature. The effect of foreign currency changes on investments is recognised in equity through the translation reserve.

FCE uses Sterling as its presentation currency in its consolidated statements because it is primarily registered and regulated as a bank in the United Kingdom and has its head office operations in the same country.

FCE's policy is to minimise exposure to operating results from changes in currency exchange rates. Controls are in place to limit the size of transactional currency exposures. To meet funding objectives, the Company borrows in a variety of currencies. Exposure to currency exchange rates occurs if a mismatch exists between the currency of the receivables and the currency of the debt funding those receivables.

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

Due to the low levels of transactional currency exposure, FCE's sensitivity to changes in currency exchange rates is not significant in terms of gains and losses recognized in the income statement.

The net assets of investments in overseas branches and subsidiaries which give rise to the unrealised gain or losses recognised in FCE's foreign currency translation reserves are detailed below:

	Company		Group	
As at 31 December	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
Net assets of foreign operations				
Euro	£ 1,536	£ 1,807	£ 1,559	£ 1,820
Other non Euro currencies	1	4	69	73

Foreign currency translation reserves are detailed below:

	Company		Group	
As at 31 December	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
Translation reserve*				
Euro	£ 305	£ 348	£ 321	£ 362
Other non Euro currencies	6	6	8	17
GBP	9	9	9	9
Total	£ 320	£ 363	£ 338	£ 388

Notes to the consolidated financial statements for the year ended 31 December 2011

40b) INTEREST RATE RISK

FCE's asset base consists primarily of fixed-rate retail instalment sale, hire purchase, conditional sale and lease contracts, with an average life of approximately 2.2 years, and floating rate wholesale financing receivables with an average life of about 69 days. Funding sources consist primarily of securitisation and unsecured term debt. It is FCE's policy to execute interest rate swaps to change the interest rate characteristics of the debt to match, within a tolerance range, the interest rate characteristics of FCE's assets. This matching policy seeks to maintain margins and reduce profit volatility.

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

To provide a quantitative measure of the sensitivity of pre-tax net interest income to changes in interest rates, FCE uses interest rate scenarios. These scenarios assume a hypothetical, instantaneous increase or decrease in interest rates of one hundred basis points across all maturities (a 'parallel shift'), impacting both assets and liabilities, as well as a base case that assumes that interest rates remain constant at existing levels. These interest rate scenarios do not represent an expectation of future interest rate movements. The differences in pre-tax net interest income between these scenarios and the base case over a twelve-month period represent an estimate of the sensitivity of FCE's pre-tax net interest income.

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

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

The sensitivity analysis presented previously assumes a one hundred basis point rate change to the year-end yield curve that is both instantaneous and parallel and impacts the re-pricing of assets and liabilities. In reality, interest rate changes are rarely instantaneous or parallel and rates could move more or less than the one percentage point assumed. In addition, management has discretion over the pricing of its new assets, and may re-price assets to a greater or lesser degree than its liabilities re-price. As a result, the actual impact to pre-tax net interest income could be higher or lower than the results detailed above.

While the sensitivity analysis presented is FCE's best estimate of the impacts of the specified assumed interest rate scenarios, actual results could differ from those

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

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

Notes to the consolidated financial statements for the year ended 31 December 2011

41 LIQUIDITY RISK

Group
As at 31 December 2011

		0-3 Months	4-12 Months	1-5 Years	5+ Years	Total
		£	£	£	£	£
Assets						
	Note					
Cash and advances to banks	A	£ 2,698	-	-	69	2,767
Marketable securities	F	-	-	-	-	-
Derivatives settled on a gross basis	E	1,056	123	-	-	1,179
Derivatives settled on a net basis	E	108	164	750	-	1,022
- Retail/Lease	B	598	1,718	3,438	25	5,779
- Wholesale	B	593	4,118	53	-	4,764
Loans and advances to customers	B	1,191	5,836	3,491	25	10,543
Operating leases	B	85	144	-	-	229
Other assets	D	169	-	-	-	169
Total asset inflows		£ 5,307	6,267	4,241	94	15,909
Liabilities						
Due to banks and other financial institutions	C	£ 599	2,416	1,394	-	4,409
Corporate deposits	C	45	5	-	-	50
Due to parent and related undertakings	C	280	554	-	-	834
Debt securities in issue	C	1,310	470	3,874	1	5,655
Derivatives settled on a gross basis (Out)	E	1,071	127	-	-	1,198
Derivatives settled on a net basis (Out)	E	76	144	699	-	919
Other liabilities	D	85	22	-	-	107
Subordinated loans	D	1	8	43	220	272
Total liability outflows		£ 3,467	3,746	6,010	221	13,444
Net liquidity gap excluding off balance sheet items		£ 1,840	2,521	(1,769)	(127)	2,465
Cumulative net liquidity gap excluding off balance sheet items		£ 1,840	£ 4,361	£ 2,592	£ 2,465	
Available for use credit facilities						
Granted by financial institutions to the company		£ 311				
Granted by FMCC to the company		1,670				
Granted by the company (Note 36)						
Total available for use credit facilities		£ 1,981				
Guarantees callable		£ (512)				
Cumulative net liquidity gap including off balance sheet items		£ 3,309	£ 5,830	£ 4,061	£ 3,934	

Notes to the consolidated financial statements for the year ended 31 December 2011

41 LIQUIDITY RISK continued

Group As at 31 December 2010		0-3 Months £ mil	4-12 Months £ mil	1-5 Years £ mil	5+ Years £ mil	Total £ mil
Assets	Note					
Cash and advances	A	£ 1,927	£ 25	£ 64	£ 78	£ 2,094
Marketable securities	F	223	-	-	-	223
Derivatives settled on a gross basis	E	1,164	10	-	-	1,174
Derivatives settled on a net basis	E	579	139	441	-	1,159
- Retail/Lease	B	796	2,043	3,899	4	6,742
- Wholesale	B	498	4,270	-	-	4,768
Loans and advances to customers	B	1,294	6,313	3,899	4	11,510
Operating leases	B	61	87	-	-	148
Other assets	D	232	-	-	-	232
Total asset inflows		£ 5,480	£ 6,574	£ 4,404	£ 82	£ 16,540
Liabilities						
Due to banks and other financial institutions	C	£ 308	£ 2,110	£ 1,355	£ -	£ 3,773
Corporate deposits	C	49	-	-	-	49
Due to parent and related undertakings	C	154	386	-	-	540
Debt securities in issue	C	849	517	4,679	-	6,045
Derivatives settled on a gross basis	E	1,157	10	-	-	1,167
Derivatives settled on a net basis	E	67	128	254	-	449
Other liabilities	D	121	12	-	-	133
Subordinated loans	D	2	50	118	955	1,125
Total liability outflows		£ 2,707	£ 3,213	£ 6,406	£ 955	£ 13,281
Net liquidity gap excluding off balance sheet items		£ 2,773	£ 3,361	£ (2,002)	£ (873)	£ 3,259
Cumulative net liquidity gap excluding off balance sheet items		£ 2,773	£ 6,134	£ 4,132	£ 3,259	
Available for use credit facilities:						
Granted by financial institutions to the company		£ 346				
Granted by FMCC to the company		1,723				
Granted by the company (Note 36)		-				
Total available for use credit facilities		£ 2,069				
Guarantees callable		£ (396)				
Cumulative net liquidity gap including off balance sheet items		£ 4,446	£ 7,807	£ 5,805	£ 4,932	

Notes to the consolidated financial statements for the year ended 31 December 2011

41 LIQUIDITY RISK continued

Company As at 31 December 2011		0-3 Months	4-12 Months	1-5 Years	5+ Years	Total
		£	£	£	£	£
Assets						
	Note					
Cash and advances to banks	A	£ 2,076	-	-	69	2,145
Marketable securities	F	-	-	-	-	-
Derivatives settled on a gross basis	E	1,056	123	-	-	1,179
Derivatives settled on a net basis	E	97	139	224	-	460
- Retail/Lease	B	588	1,686	3,404	25	5,703
- Wholesale	B	572	3,962	50	-	4,584
Loans and advances to customers	B	1,160	5,648	3,454	25	10,287
Operating leases	B	85	144	-	-	229
Other assets	D	267	-	-	-	267
Total asset inflows		£ 4,741	6,054	3,678	94	14,567
Liabilities						
Due to banks and other financial institutions	C	£ 112	938	191	-	1,241
Corporate deposits	C	44	6	-	-	50
Due to parent and related undertakings	C	623	2,560	2,252	1	5,436
Debt securities in issue	C	1,212	45	2,946	-	4,203
Derivatives settled on a gross basis (Out)	E	1,071	127	-	-	1,198
Derivatives settled on a net basis (Out)	E	61	105	183	-	349
Other liabilities	D	81	21	-	-	102
Subordinated loans	D	1	8	43	431	483
Total liability outflows		£ 3,205	3,810	5,615	432	13,062
Net liquidity gap excluding off balance sheet items		£ 1,536	2,244	(1,937)	(338)	1,505
Cumulative net liquidity gap excluding off balance sheet items		£ 1,536	£ 3,780	£ 1,843	£ 1,505	
Available for use credit facilities						
Granted by financial institutions to the company	£	311				
Granted by FMCC to the company		1,670				
Granted by the company (Note 36)		(38)				
Total available for use credit facilities	£	1,943				
Guarantees callable	£	(512)				
Cumulative net liquidity gap including off balance sheet items		£ 2,967	£ 5,211	£ 3,274	£ 2,936	

Notes to the consolidated financial statements for the year ended 31 December 2011

41 LIQUIDITY RISK continued

Company As at 31 December 2010		0-3 Months £ mil	4-12 Months £ mil	1-5 Years £ mil	5+ Years £ mil	Total £ mil
Assets						
	Note					
Cash and advances	A	£ 1,126	£ 25	£ 64	£ 77	£ 1,292
Marketable securities	F	223	-	-	-	223
Derivatives settled on a gross basis	E	1,164	10	-	-	1,174
Derivatives settled on a net basis	E	574	124	390	-	1,088
- Retail/Lease	B	785	2,010	3,844	4	6,643
- Wholesale	B	485	4,106	-	-	4,591
Loans and advances to customers	B	1,270	6,116	3,844	4	11,234
Operating leases	B	61	87	-	-	148
Other assets	D	1,496	-	-	-	1,496
Total asset inflows		£ 5,914	£ 6,362	£ 4,298	£ 81	£ 16,655
Liabilities						
Due to banks and other financial institutions	C	£ 109	£ 913	£ 420	£ -	£ 1,442
Corporate deposits	C	49	-	-	-	49
Due to parent and related undertakings	C	1,063	2,839	1,479	-	5,381
Debt securities in issue	C	699	43	3,432	-	4,174
Derivatives settled on a gross basis	E	1,157	10	-	-	1,167
Derivatives settled on a net basis	E	520	140	286	-	946
Other liabilities	D	120	12	-	-	132
Subordinated loans	D	2	50	118	955	1,125
Total liability outflows		£ 3,719	£ 4,007	£ 5,735	£ 955	£ 14,416
Net liquidity gap excluding off balance sheet items		£ 2,195	£ 2,355	£ (1,437)	£ (874)	£ 2,239
Cumulative net liquidity gap excluding off balance sheet items		£ 2,195	£ 4,550	£ 3,113	£ 2,239	
Available for use credit facilities						
Granted by financial institutions to the company		£ 346				
Granted by FMCC to the company		1,723				
Granted by the company (Note 36)		(43)				
Total available for use credit facilities		£ 2,026				
Guarantees callable		£ (396)				
Cumulative net liquidity gap including off balance sheet items		£ 3,825	£ 6,180	£ 4,743	£ 3,869	

Notes to the consolidated financial statements for the year ended 31 December 2011

41 LIQUIDITY RISK continued

Basis of liquidity risk analysis

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

The 'Net liquidity gap excluding off balance sheet items' is reported excluding behavioural adjustments for customer early settlements

The 'Net liquidity gap including off balance sheet items' includes available for use credit facilities

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

Note	Cash flows from assets and liabilities are allocated to the appropriate time bands as follows
A	Based on availability of 'cash and advances' as follows (Note 11) <ul style="list-style-type: none"> 'Cash and cash equivalents' classified by contractual maturity date 'Other deposits' which are typically not available for use in day to day operations classified based on the latest possible repayment date
B	Customer payments are assumed to occur on the latest contractual date and no behavioral adjustments are made for customer early settlements <ul style="list-style-type: none"> Retail finance and lease contracts and operating lease vehicles (reported within Note 18 'Property and equipment') generally require customers to pay equal monthly installments over the life of the contract Wholesale financing for new and used vehicles held in dealers inventory - A bullet repayment schedule is utilised as the principal is typically repaid in one lump sum at the end of the financing period
C	Classified to the earliest possible repayment date which means the first rollover date, or the shortest period of notice required to withdraw the funds or exercise a break clause where applicable
D	Classified according to the remaining period to maturity
E	Forward foreign exchange contracts and cross currency interest rate swaps are recorded on a contractual cash flow basis
F	Marketable securities are considered as available liquidity on demand

Available for use credit facilities

Available committed securitisation capacity

FCE maintains committed securitisation capacity consisting of agreements with banks and asset backed commercial paper conduits under which these parties are contractually obligated, at FCE's option, to purchase eligible receivables, or make advances under asset backed securities. Refer to the Capital and Funding section of the Directors' report and Note 18 for further details

Unsecured credit facilities granted by financial institutions to the company

At 31 December 2011 the Company had a £440 million (2010 £689 million) contractually committed unsecured credit facility with financial institutions, of which £129 million (2010 £343 million) was utilised, as part of FCE's plans for periodic usage of the facility. The remaining £311 million (2010 £346 million) was available for use and reported within the Liquidity Risk tables as 'Available for use credit facilities - Granted by financial institutions to the Company'. This credit facility, which expires in 2014, contains certain covenants including an obligation for FCE to maintain its ratio of regulatory capital risk-weighted assets at no less than the applicable regulatory minimum, and for the support

agreement between FCE and FMCC to remain in full force and effect (and enforced by FCE to ensure that its net worth is maintained at no less than \$500 million). In addition to customary payment, representation, bankruptcy and judgment defaults, the credit facility contains cross-payment and cross-acceleration defaults with respect to other debt

Unsecured credit facilities granted by FMCC to the Company

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

Liquid assets

Included within 'Cash and advances to banks' is £1,809 million (2010 £761 million) of cash and cash equivalents held centrally, primarily as investments eligible under the FSA's definition of Liquid Assets Buffer (£1.1 billion), both to meet regulatory requirements and to provide liquidity for short-term funding needs and flexibility in the use of other funding programmes

Notes to the consolidated financial statements for the year ended 31 December 2011

42 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Detailed on the following page is a comparison by category of the carrying values and fair values of the financial assets and financial liabilities

Fair value is obtained by calculating the amount at which an asset or liability could be exchanged in an arm's length transaction between informed and willing parties other than in a forced liquidation

FCE measures the fair value of its assets and liabilities based on the fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following measurements

- Level 1 inputs include quoted prices for identical instruments and are the most observable
- Level 2 inputs include quoted prices for similar assets and observable inputs such as interest rates, currency exchange rates and yield curves
- Level 3 inputs are not observable in the market and include management's judgments about the assumptions market participants would use in pricing the asset or liability

For FCE, measurements of fair values classified at level 3 included longer-dated instruments where observable interest rates or foreign exchange rates were not available for all periods through to maturity. As at 31 December 2011, FCE had transferred out all fair values of financial instruments classified at level 3. Refer to page 115 for further details

Due to the low levels of derivative fair values measured at level 3 in 2010, FCE's sensitivity to changes in assumptions was not significant in terms of gains and losses recognised in the income statement

Derivative financial instruments

The fair values of derivatives are calculated using market rates and industry standard valuation models. All derivatives are included in assets when the fair value is positive and in liabilities when the fair value is negative

Financial assets

Cash and advances to banks include inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity

Short term receivables and loans receivable. The book value of short-term receivables and loans receivable approximates fair value due to the short maturities of these assets

Loans and advances to customers. The fair value is calculated by discounting anticipated future cash flows using an estimated discount rate that reflects the following

- Expected credit losses
- Customer prepayments
- Expected future interest rates

FCE uses statistical methods that divide receivables into segments by type of receivables and contractual term

Financial liabilities

The aggregate fair values of financial liabilities are calculated as follows

- Subordinated loans with no stated maturity date are reported based on the amount repayable on demand
- The book value of short-term debt, trade payable and accounts payable to subsidiary and related undertakings approximates fair value due to the short maturities of these liabilities
- The fair value of all other debt is estimated based upon quoted market prices, current market rates for similar debt with approximately the same remaining maturities, or discounted cash flow models utilising current market rates

Accordingly the information as presented does not purport to represent, nor should it be construed to represent, the underlying value of the business as a going concern

Notes to the consolidated financial statements for the year ended 31 December 2011

42 FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

		Carrying Value		Fair Value	
As at 31 December		2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
	Notes				
GROUP FINANCIAL ASSETS					
Financial assets at fair value through profit and loss					
Cash and advances	11	£ 2 767	£ 2 094	£ 2 767	£ 2 094
Marketable securities	12	-	223	-	223
Derivative financial instruments	13	163	276	£ 163	276
Financial assets at amortised cost					
Accounts receivables	14	£ 146	£ 173	£ 146	£ 173
Loans and advances to customers	15				
Retail		5 222	6 061	5 288	6 094
Wholesale/other		4 589	4 757	4 589	4 757
GROUP FINANCIAL LIABILITIES					
Financial liabilities at fair value through profit and loss					
Derivative financial instruments	13	£ 85	£ 158	£ 85	£ 158
Listed Debt					
Debt securities in issue	28	£ 955	£ 1 237	£ 955	£ 1 237
Financial liabilities at amortised cost					
Listed Debt					
Debt securities in issue	28	£ 4 131	£ 4 779	£ 4 198	£ 5 215
Unlisted Debt					
Due to banks & other financial institutions	25	4 405	3 773	4 395	3 761
Corporate deposits	26	50	49	50	49
Due to parent and related undertakings	27	821	540	790	519
Debt securities in issue	28	13	43	13	44
Trade payables	29	85	121	85	121
Subordinated loans	30	220	287	211	302
COMPANY FINANCIAL ASSETS					
Financial assets at fair value through profit and loss					
Cash and advances	11	£ 2 145	£ 1 292	£ 2 145	£ 1 292
Marketable securities	12	-	223	-	223
Derivative financial instruments	13	155	274	155	274
Financial assets at amortised cost					
Accounts receivable	14	£ 246	£ 1 058	£ 246	£ 1 058
Loans receivable	14	330	380	330	380
Loans and advances to customers	15				
Retail		5 150	5 964	5 230	6 006
Wholesale/other		4 414	4 580	4 414	4 580
COMPANY FINANCIAL LIABILITIES					
Financial liabilities at fair value through profit and loss					
Derivative financial instruments	13	£ 53	£ 106	£ 53	£ 106
Listed Debt					
Debt securities in issue	28	£ 955	£ 1 237	£ 955	£ 1 237
Financial liabilities at amortised cost					
Listed Debt					
Debt securities in issue	28	£ 2 680	£ 2 907	£ 2 735	£ 3 327
Unlisted Debt					
Due to banks & other financial institutions	25	1 238	1 442	1 230	1 432
Corporate deposits	26	50	49	50	49
Due to parent and related undertakings	27	5 424	5 382	5 402	5 373
Debt securities in issue	28	13	43	13	44
Trade payables	29	81	120	81	121
Subordinated loans	30	220	287	211	302

The carrying value of financial assets broadly equates to the maximum exposure to credit risk with the exception of Wholesale receivables as the Company extends to certain dealers approved lines of credit as detailed in Note 36 'Commitments'. For reasons of materiality the fair values of guarantees is not separately disclosed.

Notes to the consolidated financial statements for the year ended 31 December 2011

42 FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

The table below represents the assets and liabilities of the Company and Group that are measured at fair value as at 31 December 2011

GROUP					
As at 31 December 2011		Level 1	Level 2	Level 3	Total
		£ mil	£ mil	£ mil	£ mil
Financial assets at fair value through profit and loss					
Cash and advances	£	2,767	£ -	£ -	£ 2,767
Marketable securities		-	-	-	-
Derivative financial instruments		-	163	-	163
Financial liabilities at fair value through profit and loss					
Derivative financial instruments	£	-	85	£ -	£ 85
Debt securities in issue		-	955	-	955

As at 31 December 2010		Level 1	Level 2	Level 3	Total
		£ mil	£ mil	£ mil	£ mil
Financial assets at fair value through profit and loss					
Cash and advances	£	2,094	£ -	£ -	£ 2,094
Marketable securities		223	-	-	223
Derivative financial instruments		-	226	50	276
Financial liabilities at fair value through profit and loss					
Derivative financial instruments	£	-	100	£ 58	£ 158
Debt securities in issue		-	1,237	-	1,237

COMPANY					
As at 31 December 2011		Level 1	Level 2	Level 3	Total
		£ mil	£ mil	£ mil	£ mil
Financial assets at fair value through profit and loss					
Cash and advances	£	2,145	£ -	£ -	£ 2,145
Marketable securities		-	-	-	-
Derivative financial instruments		-	155	-	155
Financial liabilities at fair value through profit and loss					
Derivative financial instruments	£	-	53	-	£ 53
Debt securities in issue		-	955	-	955

As at 31 December 2010		Level 1	Level 2	Level 3	Total
		£ mil	£ mil	£ mil	£ mil
Financial assets at fair value through profit and loss					
Cash and advances	£	1,292	£ -	£ -	£ 1,292
Marketable securities		223	-	-	223
Derivative financial instruments		-	226	48	274
Financial liabilities at fair value through profit and loss					
Derivative financial instruments	£	-	100	£ 6	£ 106
Debt securities in issue		-	1,237	-	1,237

Notes to the consolidated financial statements for the year ended 31 December 2011

42 FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

Reconciliation of changes in level 3 financial instrument balances

	Company		Group	
	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
Derivative financial instruments (net)				
Fair value at 1 January	£ 42	£ 106	£ (8)	£ (4)
Total realised / unrealised gains / (losses)	(20)	10	(19)	(11)
Net settlements	(8)	(74)	15	7
Net transfers into / (out of) level 3	(14)	-	12	-
Fair value at 31 December	£ -	£ 42	£ -	£ (8)
Changes in unrealised gains / (losses) on instruments still held at 31 December	£ -	£ (10)	£ -	£ (5)
Analysis of total realised / unrealised gains / (losses)				
Interest expense	£ 8	£ 72	£ (14)	£ (7)
Translation reserve	-	-	1	2
Fair value adjustments to financial instruments	(28)	(62)	(6)	(6)
Total realised / unrealised gains / (losses)	£ (20)	£ 10	£ (19)	£ (11)

FCE's policy is to recognise transfers in and transfers out at the value at the end of the reporting period. The transfer out was primarily the result of management's validation of the observable data and determination that certain unobservable inputs had an insignificant impact on the valuation of these instruments.

Notes to the consolidated financial statements for the year ended 31 December 2011

43 RELATED PARTY TRANSACTIONS

Parties are considered to be related if they are under common control and if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions

A number of transactions are entered into with related parties in the normal course of business. The Company and its subsidiaries are separate, legally distinct companies from Ford and Ford's automotive affiliates and transactions are carried out on commercial terms and at market rates and enforced by FCE in a commercially reasonable manner. In addition to participating in retirement benefit plans sponsored by Ford and Volvo subsidiaries (discussed in Note 34 'Retirement benefit obligations'), the Company has a support agreement with Ford Credit in regard to Shareholders' funds (detailed in Note 31 'Ordinary shares and share premium')

FCE has reported related party transactions with the following categories, described below

- Parent undertakings,
- Directors and officers,
- Entities under common control,
- Jointly controlled entities

Related parties

Parent undertakings - this includes FCI, Ford Credit and Ford. For further information refer to Note 46 'FCE and other related party information'

Directors and officers - reported in Note 6 'Transactions with Directors and officers'

Entities under common control - which includes all subsidiaries of Ford except for those entities already reported within 'Subsidiaries of the company' and 'Parent undertakings'. Transactions reported in this category include

- Provision of approved lines of credit, mortgages, working capital and other types of loans which mainly relates to automotive partner vehicle dealers in which Ford maintains a controlling interest,
- The receipt of interest income from Ford and its related companies arising from loans, interest supplements and other support costs in regard to a variety of retail and wholesale finance plans,
- Guarantees provided on behalf of other related parties of which further details can be found Note 35 'Contingent liabilities',
- Guarantees received from other related parties primarily for wholesale vehicle finance plans

As at 31 December 2011 adjustments to the carrying value of loans and advances to customers relating to interest supplements from related parties totalled £151 million (2010 £193 million) and are reported in Note 15 'Loans and advances to customers'. Interest supplements relating to loans and advances earned and recorded in the income statement for the year ended 31 December 2011 were £444 million (2010 £455 million) and are reported in Note 2 'Net interest income'

Interest supplements relating to operating leases earned and recorded in the income statement for the year ended 31 December 2011 were £140 million (2010 £123 million) and are reported in Note 4 'Other operating income'

The Company has guaranteed obligations of Ford in Romania. For further information please refer to Note 27 'Due to parent and related undertakings' and Note 35 'Contingent liabilities'

Jointly controlled entity - FCE's only jointly controlled entity is Forso for which information has been disclosed in Note 23 'Investment in a jointly controlled entity'

There have been no other significant changes in transactions with related parties in the period to 31 December 2011. For further details refer to the following Company and Group disclosures

Notes to the consolidated financial statements for the year ended 31 December 2011

43 RELATED PARTY TRANSACTIONS continued

The value of related party transactions, outstanding balances at 31 December, and relating expense and income for the year are as follows

Group	Parent Undertakings		Entities under common control		Jointly Controlled Entity	
	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
Accounts receivable						
Accounts receivable at 1 January	£ 1	£ -	£ 71	£ 104	£ 1	£ 12
Additions to accounts receivable during the year	3	3	2,626	2,027	25	70
Repayments during the year (Footnote 4)	(4)	(2)	(2,633)	(2,060)	(26)	(81)
Accounts receivable at 31 December	£ -	£ 1	£ 64	£ 71	£ -	£ 1
Loans						
Loans outstanding at 1 January	£ -	£ -	£ 196	£ 236	£ -	£ -
Loans issued during the year	-	-	2,388	2,249	-	-
Loan repayments during the year (Footnote 4)	-	-	(2,383)	(2,289)	-	-
Loans outstanding at 31 December	£ -	£ -	£ 201	£ 196	£ -	£ -
Investment in jointly controlled entity						
Investment at 1 January	£ -	£ -	£ -	£ -	£ 45	£ 41
Dividend received during the year	-	-	-	-	(4)	(3)
Share of net income during the year	-	-	-	-	6	8
Foreign currency translation adjustment	-	-	-	-	(1)	1
Investment at 31 December	£ -	£ -	£ -	£ -	£ 46	£ 45
Accounts payable						
Accounts payable at 1 January	£ 8	£ 11	£ 59	£ 193	£ -	£ 1
Additions to accounts payable during the year	53	82	33,519	32,663	-	1
Repayments during the year (Footnote 4)	(54)	(85)	(33,419)	(32,797)	-	(2)
Accounts payable at 31 December	£ 7	£ 8	£ 159	£ 59	£ -	£ 0
Deposits received/subordinated loans						
Deposits at 1 January	£ 412	£ 671	£ 347	£ 322	£ -	£ -
Deposits received during the year	545	577	419	430	-	-
Deposits repaid during the year (Footnote 4)	(412)	(836)	(436)	(405)	-	-
Deposits at 31 December	£ 545	£ 412	£ 330	£ 347	£ -	£ -
Revenue						
Interest supplements relating to loans and receivables	£ -	£ -	£ 444	£ 455	£ -	£ -
Interest supplements relating to operating leases	-	-	140	123	-	-
Interest income relating to related parties	-	-	9	9	-	-
Service fees received/(paid) (Footnote 1)	(15)	(13)	(17)	(17)	2	3
Expense						
Interest expense on deposits	£ 17	£ 4	£ 8	£ -	£ -	£ -
Interest expense	4	26	1	7	-	-
Guarantees						
Guarantees provided (Note 35)	£ -	£ -	£ 512	£ 396	£ -	£ -
Commitments to lend (Footnote 3)	-	-	-	-	-	-
Guarantees received	-	-	42	428	-	-
Group tax relief (Footnote 2)	£ -	£ -	£ 110	£ 82	£ -	£ -
Dividends paid (Note 32)	£ 370	£ 390	£ -	£ -	£ -	£ -
Dividends received	£ -	£ -	£ -	£ -	£ 4	£ 3
Derivatives						
Derivatives year end positive fair value	£ -	£ -	£ 7	£ 11	£ -	£ -
Derivatives year end negative fair value	-	-	23	-	-	-

Footnotes

- Service fees received or paid** - FCE receives technical and administrative advice and services from Ford and its related companies, occupies office space furnished and provided by them and its related companies and utilises data processing facilities maintained by them. The costs of these services are charged to 'Operating expenses'.
- Group tax relief** are losses claimed from related UK companies to shelter FCE's UK tax profits.
- Commitments to lend** - The Company has extended loan facilities to its Polish subsidiaries FCE Bank Polska S.A. and FCE Credit Poland S.A. For further information refer to Note 36 'Commitments'.
- Repayments** include both repayments and the effect of exchange rate changes during the year.

Notes to the consolidated financial statements for the year ended 31 December 2011

43 RELATED PARTY TRANSACTIONS continued

The value of related party transactions, outstanding balances at 31 December, and relating expense and income for the year are as follows

Company	Subsidiaries of the Company		Parent Undertakings		Entities under common control		Jointly Controlled Entity	
	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
Accounts receivable								
Accounts receivable at 1 January	£ 887	£ 110	£ 1	£ -	£ 70	£ 102	£ 1	£ 12
Additions to accounts receivable during the year	33 062	24,937	3	3	2 610	2,010	22	70
Repayments during the year (Footnote 4)	(33 848)	(24,160)	(4)	(2)	(2 617)	(2,042)	(23)	(81)
Accounts receivable at 31 December	£ 101	£ 887	£ -	£ 1	£ 63	£ 70	£ -	£ 1
Loans								
Loans outstanding at 1 January	£ 380	£ 78	£ -	£ -	£ 196	£ 236	£ -	£ -
Loans issued during the year	4 838	3 813	-	-	2 388	2,249	-	-
Loan repayments during the year (Footnote 4)	(4 888)	(3 511)	-	-	(2 383)	(2,289)	-	-
Loans outstanding at 31 December	£ 330	£ 380	£ -	£ -	£ 201	£ 196	£ -	£ -
Investment in group undertakings (Note 24)								
Cost at 1 January	£ 339	£ 63	£ -	£ -	£ -	£ -	£ -	£ -
Additional investments during the year	-	276	-	-	-	-	-	-
Reduction of investments during the year	-	-	-	-	-	-	-	-
Cost at 31 December	£ 339	£ 339	£ -	£ -	£ -	£ -	£ -	£ -
Accounts payable								
Accounts payable at 1 January	£ 18	£ 65	£ 8	£ 11	£ 49	£ 183	£ -	£ 1
Additions to accounts payable during the year	19 329	15 670	53	82	32 425	31,394	-	1
Repayments during the year (Footnote 4)	(19 306)	(15 717)	(54)	(85)	(32 325)	(31,528)	-	(2)
Accounts payable at 31 December	£ 41	£ 18	£ 7	£ 8	£ 149	£ 49	£ -	£ 0
Deposits received/subordinated loans								
Deposits at 1 January	£ 4 237	£ 3 778	£ 412	£ 671	£ 319	£ 289	£ -	£ -
Deposits received during the year	30 323	21 567	545	577	399	426	-	-
Deposits repaid during the year (Footnote 4)	(29 966)	(21 108)	(412)	(836)	(409)	(396)	-	-
Deposits at 31 December	£ 4,594	£ 4,237	£ 545	£ 412	£ 309	£ 319	£ -	£ -
Revenue								
Interest supplements relating to loans and receivables	£ -	£ -	£ -	£ -	£ 428	£ 438	£ -	£ -
Interest supplements relating to operating leases	-	-	-	-	140	123	-	-
Interest income relating to related parties	8	5	-	-	17	9	-	-
Service fees received/(paid) (Footnote 1)	2	2	(15)	(13)	(17)	(17)	2	3
Expense								
Interest expense on deposits	£ -	£ -	£ 17	£ 4	£ 8	£ -	£ -	£ -
Interest expense	6	1	4	26	-	5	-	-
Guarantees								
Guarantees provided (Note 35)	£ -	£ -	£ -	£ -	£ 512	£ 396	£ -	£ -
Commitments to lend (Footnote 3)	38	43	-	-	-	-	-	-
Guarantees received	-	-	-	-	42	428	-	-
Group tax relief (Footnote 2)	£ -	£ 1	£ -	£ -	£ 110	£ 82	£ -	£ -
Dividends paid (Note 32)	£ -	£ -	£ 370	£ 390	£ -	£ -	£ -	£ -
Dividends received	£ -	£ 9	£ -	£ -	£ -	£ -	£ 4	£ 3
Derivatives								
Derivatives year end positive fair value	£ -	£ -	£ -	£ -	£ 7	£ 11	£ -	£ -
Derivatives year end negative fair value	-	-	-	-	23	-	-	-

Footnotes

- Service fees received or paid** - FCE receives technical and administrative advice and services from Ford and its related companies, occupies office space furnished and provided by them and its related companies and utilises data processing facilities maintained by them. The costs of these services are charged to 'Operating expenses'.
- Group tax relief** are losses claimed from related UK companies to shelter FCE's UK tax profits.
- Commitments to lend** The Company has extended loan facilities to its Polish subsidiaries FCE Bank Polska S.A. and FCE Credit Poland S.A. For further information refer to Note 36 'Commitments'.
- Repayments** include both repayments and the effect of exchange rate changes during the year.

Notes to the consolidated financial statements for the year ended 31 December 2011

44 SEGMENT REPORTING

Segmental data reported includes income, expenses and other financial information for the year ended 31 December 2011 and asset information as at 31 December 2011

44a) Performance measurement figures

	UK	Germany	Italy	Spain	France	Central / Other	Total
	2011	2011	2011	2011	2011	2011	2011
	\$ mil	\$ mil	\$ mil	\$ mil	\$ mil	\$ mil	\$ mil
Market income	\$ 380	\$ 477	\$ 188	\$ 79	\$ 126	\$ 210	\$ 1,460
Borrowing costs	(230)	(285)	(125)	(48)	(80)	(117)	(885)
Operating expenses	(64)	(112)	(35)	(37)	(24)	(57)	(329)
Impairment losses	(8)	8	(10)	11	-	(10)	(9)
Other revenue / (expenses)	(2)	(46)	1	0	1	6	(40)
Profit / (loss) before tax	\$ 76	\$ 42	\$ 19	\$ 5	\$ 23	\$ 32	\$ 197
Net receivables	\$ 4,128	\$ 5,424	\$ 2,021	\$ 734	\$ 1,357	\$ 2,282	\$ 15,944

44b) Reconciliation between certain performance measurement figures 44a) and Additional Information 44c)

Performance measurement figures	Market Income mil	Borrowing Costs mil	Operating Expenses mil	Impairment Losses mil	PBT mil	Net Receivables mil
Reportable segments	\$ 1,250	\$ (768)	\$ (272)	\$ 1	\$ 165	\$ 13,662
Central operations / other	210	(117)	(57)	(10)	32	2,282
Total	\$ 1,460	\$ (885)	\$ (329)	\$ (9)	\$ 197	\$ 15,944
Converted to GBP	£ 908	£ (550)	£ (205)	£ (6)	£ 122	£ 10,278
IFRS vs US GAAP	16	(6)	(8)	-	(2)	(11)
Presentational differences						
Operating leases	148	-	-	-	-	(229)
Interest supplements	-	-	-	-	-	(151)
Provision for incurred losses	-	-	-	-	-	(64)
Fees and commission expense	13	-	-	-	-	-
Residual gains / losses / reserve	(1)	-	-	-	-	(4)
Other presentational differences	8	(23)	12	3	4	(8)
Adjustments						
Risk based equity adjustment	-	68	-	-	68	-
Other performance adjustments	-	(1)	-	-	(20)	-
Timing adjustments	7	-	-	-	7	-
Total Reconciliation to IFRS	£ 1,099	£ (512)	£ (201)	£ (3)	£ 179	£ 9,811
IFRS basis						
Total revenue (See 44c)	£ 1,099					
Interest expense		£ (512)				
Operating expenses			£ (201)			
Impairment losses on loans and advances				£ (3)		
Profit / (loss) before tax (See 44c)					£ 179	
Net loans and advances to customers (See 44c)						£ 9,811

44c) Additional Information - IFRS basis

	UK	Germany	Italy	Spain	France	Central / Other	Total
	2011	2011	2011	2011	2011	2011	2011
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
INCOME STATEMENT							
Retail revenue	£ 125	£ 195	£ 55	£ 19	£ 29	£ 38	£ 461
Wholesale revenue	93	64	54	29	45	91	376
Other interest income	1	3	1	-	1	13	19
Fee and commission income	19	18	9	2	8	7	63
Income from operating leases	-	175	-	-	-	5	180
Total external revenue	£ 238	£ 455	£ 119	£ 50	£ 83	£ 154	£ 1,099
Inter segment revenue	-	1	-	1	-	(2)	-
Total Revenue	£ 238	£ 456	£ 119	£ 51	£ 83	£ 152	£ 1,099
Depreciation of property and equipment	19	(169)	-	-	-	(5)	(174)
Amortisation of other intangibles	22	-	-	-	-	(5)	(5)
Profit / (loss) before tax	£ 25	£ 22	£ 37	£ 3	£ 4	£ 88	£ 179
Memo - Including Exceptional Items	9	11	-	-	-	(6)	5
ASSETS							
Net loans and advances to customers	16	£ 2,618	£ 3,146	£ 1,282	£ 459	£ 854	£ 14,522
Property and equipment	-	1	229	-	1	-	4
Investment in jointly controlled entity	23	-	-	-	-	46	46
Total assets	£ 2,624	£ 4,401	£ 1,470	£ 537	£ 954	£ 3,446	£ 13,432

Notes to the consolidated financial statements for the year ended 31 December 2011

44 SEGMENT REPORTING continued

Segmental data reported includes income, expenses and other financial information for the year ended 31 December 2010 and asset information as at 31 December 2010

44a) Performance measurement figures	UK	Germany	Italy	Spain	France	Central / Other	Total
	2010	2010	2010	2010	2010	2010	2010
	\$ mil	\$ mil	\$ mil	\$ mil	\$ mil	\$ mil	\$ mil
Market income	\$ 372	\$ 486	\$ 209	\$ 100	\$ 117	\$ 229	\$ 1,613
Borrowing costs	(229)	(302)	(139)	(58)	(70)	(127)	(926)
Operating expenses	(70)	(112)	(29)	(47)	(24)	(60)	(342)
Impairment losses	(11)	5	(9)	0	1	10	(4)
Other revenue / (expenses)	3	28	0	3	(1)	(17)	16
Profit / (loss) before tax	\$ 65	\$ 105	\$ 32	\$ (2)	\$ 23	\$ 35	\$ 258
Net receivables	\$ 4 406	\$ 6 068	\$ 2 316	\$ 963	\$ 1 327	\$ 2 420	\$ 17,500

44b) Reconciliation between certain performance measurement figures 44a) and Additional Information 44c)

Performance measurement figures	Market Income	Borrowing Costs	Operating Expenses	Impairment Losses	PBT	Net Receivables
	mil	mil	mil	mil	mil	mil
Reportable Segments	\$ 1 284	\$ (798)	\$ (282)	\$ (14)	\$ 223	\$ 15 080
Central operations / other	229	(127)	(60)	10	35	2 420
Total	\$ 1,613	\$ (926)	\$ (342)	\$ (4)	\$ 258	\$ 17,500
Converted to GBP	£ 978	£ (598)	£ (221)	£ (2)	£ 167	£ 11 269
IFRS vs US GAAP	20	-	(8)	-	8	(14)
Presentational Differences						
Operating Leases	117	-	-	-	-	(148)
Unearned interest supplements	-	-	-	-	-	(193)
Provision for incurred losses	-	-	-	-	-	(82)
Fees and commission expense	8	-	-	-	-	-
Residual gains / losses / reserve	5	-	-	-	-	(7)
Other Presentational Differences	(25)	(7)	14	(8)	4	(7)
Adjustments						
Risk Based Equity Adjustment	-	71	-	-	71	-
Other Performance Adjustments	-	(5)	-	-	(12)	-
Timing adjustments	-	-	-	1	1	-
Total Reconciliation to IFRS	£ 1,103	£ (639)	£ (215)	£ (9)	£ 239	£ 10,818
IFRS basis						
Total Revenue (See 44c)	£ 1 103					
Interest expense		£ (539)				
Operating expenses			£ (215)			
Impairment losses on loans and advances				£ (9)		
Profit / (loss) before tax (See 44c)					£ 239	
Net loans and advances to customers (See 44c)						£ 10 818

44c) Additional Information - IFRS basis		UK	Germany	Italy	Spain	France	Central / Other	Total
		2010	2010	2010	2010	2010	2010	2010
INCOME STATEMENT	Note	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
Retail revenue	£	142	£ 215	£ 64	£ 39	£ 30	£ 49	£ 639
Wholesale revenue		88	50	60	26	38	78	340
Other interest income		5	1	1	-	1	6	14
Fee and commission income		9	35	10	2	8	6	70
Income from operating leases		-	136	-	-	-	4	140
Total External Revenue	£	244	£ 437	£ 135	£ 67	£ 77	£ 143	£ 1,103
Inter-segment Revenue			2	-	1	-	(3)	-
Total Revenue	£	244	£ 439	£ 135	£ 68	£ 77	£ 140	£ 1,103
Depreciation of property and equipment		-	(97)	-	-	-	(3)	(100)
Amortisation of other intangibles		-	-	-	-	-	(4)	(4)
Profit / (loss) before tax	£	54	£ 45	£ 25	£ 12	£ 11	£ 92	£ 239
- Including exceptional gains/(losses)	9	(5)	(2)	2	(10)	(1)	(2)	(18)
ASSETS as at 31 December 2010								
Net loans and advances to customers	15	£ 2 793	£ 3 588	£ 1 466	£ 596	£ 835	£ 1 540	£ 10,818
Property and equipment		1	146	-	1	-	5	153
Investment in jointly controlled entity	22	-	-	-	-	-	45	45
Total assets	£	2 835	£ 4 246	£ 1 847	£ 698	£ 1 013	£ 3 373	£ 14,012

Notes to the consolidated financial statements for the year ended 31 December 2011

44 SEGMENT REPORTING continued

In line with the focus of management review and the requirements of IFRS 8 'Operating Segments', the performance of the five major geographical markets (UK, France, Germany, Italy and Spain) is separately reported. The performance of the five major markets ('Reportable Segments') constitute over 75% of external revenue and

have been analysed as separate reportable segments on pages 120 and 121 with all other markets and operations combined under 'Other/Central Office' as detailed below. Central Office includes various operations providing support to the Company's branches and subsidiaries the costs of which are allocated to the location benefiting from the service

Reportable Segment	Description
France	The Company's branch in France
Germany	The Company's branches in Germany
Italy	The Company's branch in Italy
Spain	The Company's branch in Spain
United Kingdom	UK operations excluding Worldwide Trade Finance (WTF) a UK division and Central Office Operations (which are included within 'Central/Other')

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

'Central/Other' represents operations individually contributing less than 10% of external revenue and includes the Company's branches in Austria, Belgium, Greece, Ireland, Netherlands and Portugal and FCE's subsidiaries located in the Czech Republic, Hungary and Poland. In addition 'Central/Other' includes Central Office operations, WTF a UK division, eliminations of intra and inter-company transactions and an amortising receivable portfolio in Norway.

In each reportable segment, external revenue is derived from providing finance products to Ford's automotive brand's retail customers and dealers (referred to as 'Retail' and 'Wholesale' respectively within the 2011 Annual Report and Accounts) as described on page 6 'Description of the business'.

44a) Performance measurement figures

In accordance with IFRS 8 the income statement and balance sheet data is as reported to the FCE Executive Committee ('EC') which is the chief operating decision maker. Segmental data is reported to the EC in US dollars under US Generally Accepted Accounting Practice (GAAP) on a Risk Based Equity (RBE) basis excluding fair value adjustments to financial instruments and foreign exchange adjustments (refer to 'Definitions' as detailed on page 2 for a definition of RBE).

The EC assesses performance of FCE's branches and subsidiaries from a geographical perspective and allocates resources based on this information. Performance measurement figures are presented and structured to focus on internal management of the business and include the following captions:

'Market income' represents

- (i) interest income from retail and wholesale finance receivables, being the majority of FCE's business,
- (ii) rentals received for operating lease vehicles less depreciation of motor vehicles held for use under operating leases and
- (iii) net fees and commissions income

'Borrowing costs' represents the costs associated with locally and centrally sourced unsecured funding and locally sourced securitisation based funding, and is presented on an RBE basis. The RBE process allocates equity based on an assessment of the inherent risk in each location, and the borrowing cost is adjusted versus that reported under IFRS, to reflect the cost impact of changes in the level of debt that would be required to match the revised equity requirements. Central funding and derivative costs, including the costs of holding a liquidity buffer, are allocated to locations on an annual basis.

'Operating expenses' and 'Impairment losses' are typically the same as reported for performance measurement and IFRS.

'Other revenue/(expenses)' – represents other miscellaneous income/expense not included within the above captions.

'Profit/ (loss) before tax' is reported under US GAAP on a RBE basis excluding fair value adjustments to financial instruments and foreign exchange adjustments.

'Net receivables' are reported on a US GAAP basis excluding 'provision for incurred losses' and 'unearned interest supplements from related parties' and including FCE's net investment in motor vehicles held for use by FCE as the lessor under operating leases.

Notes to the consolidated financial statements for the year ended 31 December 2011

44 SEGMENT REPORTING continued

44b) Reconciliation between performance measurement and IFRS figures

In order to assist users of the financial statements a reconciliation is provided between certain performance measurement and Additional information figures as reported within 44 a) and 44 c) and the IFRS consolidated income statement as detailed below

Performance measurement caption	IFRS caption (included in table 44c)
Market income	Total revenue*
Profit/(loss) before tax	Profit/(loss) before tax
Net receivables	Total loans and advances to customers at the end of period
Performance measurement caption	IFRS caption (included within income statement)
Borrowing costs	Interest expense
Operating expenses	Operating expenses
Impairment losses	Impairment losses on loans and advances
Other revenue/expenses	Residual value losses and gains for retail and operating lease vehicles are included within 'Interest income' and 'depreciation of property and equipment' respectively

* Total revenue includes 'Interest income', 'Fee and commission income' and 'Income from operating leases'

This section commences with the performance measurement figures detailed above for FCE's Reportable Segments plus 'Central/Other' operations in US dollars and converts the amounts reported to Sterling ('Converted to GBP') based on

the exchange rates as incurred and 'Net receivables' at the exchange rate prevailing on the reporting date. The resulting figure is then reconciled to the figures reported within 44c) and the IFRS financial statements. Key differences include

IFRS v US GAAP

Differences between IFRS and US GAAP. Such differences in accounting treatment include deferred loan origination costs and securitisation and related financing.

Presentational differences

EC reviews levels of "net receivables" as a key performance measure. This includes operating leases (reported within the IFRS balance sheet under the caption 'Property and equipment') excluding deferred loan origination costs, unearned finance income, interest supplements from related parties, provisions for incurred losses and vehicle residual value losses.

Other differences within this category represent minor presentational differences between performance measurement and IFRS reporting.

Adjustments

This section includes the following adjustments:

RBE performance adjustment allocates equity based on an assessment of the inherent risk in each location. Borrowing costs are adjusted versus that reported under IFRS, to reflect the cost impact of changes in the level of debt that would be required to match the revised equity requirements. The RBE adjustment enables the risk/return of individual locations to be evaluated from a total perspective.

'Other Performance Adjustments' includes the impact to earnings of fair value adjustments to financial instruments and foreign exchange adjustments. Primarily related to movements in market rates, these are excluded from EC performance measurement as FCE's risk management activities are administered on a centralised basis.

Timing adjustments required to include adjusting post balance sheets within IFRS results.

44c) Additional information

To fulfil the requirements of IFRS 8 any disclosures not incorporated within the performance measurement results as reported within section 44 a) are provided within section 44 c) below on these same pages. Financial data reported is in accordance with the reporting of the Interim accounts and is reported in sterling under IFRS, including fair value adjustments to financial instruments and foreign exchange

adjustments and excludes RBE analytical adjustments. The information produced in 44 c) is produced on the basis described as it is deemed to be impracticable to produce additional IFRS 8 supplementary information on a basis consistent with the performance measurement results disclosed to the EC.

Transfer pricing

During 2009 the Company updated its transfer pricing methodology in line with the guidelines issued by the Organisation for Economic Co-operation and Development (OECD) on 17 July 2008. The implementation of the methodology does not impact the Company's overall profit

before tax and is excluded from performance measurement results. The profit before tax of individual operating segments as reported on an IFRS basis in 44c) is impacted by the resulting change.

Notes to the consolidated financial statements for the year ended 31 December 2011

45 NOTES TO STATEMENT OF CASH FLOWS

Reconciliation of profit before tax to cash from operating activities for the years ended 31 December 2011 and 31 December 2010

	Company		Group	
	2011	2010	2011	2010
	£ mil	£ mil	£ mil	£ mil
Cash flows from operating activities				
Profit before tax	£ 164	£ 176	£ 179	£ 239
Adjustments for				
Depreciation expense on property and equipment	1	1	1	1
Depreciation expense on operating lease vehicles	173	99	173	99
Effects of foreign currency translation	4	38	24	41
Gross impaired losses on loans and advances	41	54	42	55
Share of net income in a jointly controlled entity	-	-	(6)	(6)
Amortisation of other intangibles	5	4	5	4
Fair value adjustments to financial instruments	16	23	(5)	(34)
Interest expense	529	552	512	539
Interest income	(854)	(891)	(856)	(893)
Changes in operating assets and liabilities				
Net increase/(decrease) in accrued liabilities and deferred income	7	83	(3)	95
Net (increase)/decrease in deferred charges and prepaid expenses	8	25	8	22
Net (increase)/decrease in finance receivables	744	1,353	741	1,329
Purchase of vehicles for operating leases	(550)	(462)	(550)	(462)
Proceeds from sale of operating lease vehicles	286	316	286	316
Net (increase)/decrease in vehicles awaiting sale	(73)	55	(73)	55
Net (increase)/decrease in accounts receivables	11	83	10	85
Net increase/(decrease) in accounts payables	(37)	27	(35)	25
Net (increase)/decrease in accounts receivables from related undertakings	246	(127)	8	75
Net increase/(decrease) in accounts payables to related undertakings	95	(155)	101	(251)
Cash from/(used in) operating activities	£ 816	£ 1,254	£ 562	£ 1,334

Notes to the consolidated financial statements for the year ended 31 December 2011

45 NOTES TO STATEMENT OF CASH FLOWS continued

Reconciliation of cash and cash equivalents at beginning and end of period and of movements for the year ended 31 December 2011 and 2010

	Company		Group	
	2011 £ mil	2010 £ mil	2011 £ mil	2010 £ mil
At beginning of period				
Cash and advances	£ 1,292	£ 1,628	£ 2,094	£ 2,586
Less				
- Central bank deposits and other deposits in support of European Investment Bank loans	(167)	(180)	(168)	(181)
- Bank overdrafts	-	(53)	-	(53)
Balance at 1 January 2011 and 2010	£ 1,125	£ 1,395	£ 1,926	£ 2,352
At end of period.				
Cash and advances	£ 2,145	£ 1,292	£ 2,767	£ 2,094
Less				
- Central bank deposits and other deposits in support of European Investment Bank loans	(69)	(167)	(69)	(168)
- Bank overdrafts	(7)	-	(9)	-
Balance at 31 December 2011 and 2010	£ 2,069	£ 1,125	£ 2,689	£ 1,926
Net increase/(decrease) in cash and cash equivalents				
Cash and cash equivalents at beginning of period	£ 1,125	£ 1,395	£ 1,926	£ 2,352
Cash and cash equivalents at end of period	2,069	1,125	2,689	1,926
Net increase / (decrease) in cash and cash equivalents	£ 944	£ (270)	£ 763	£ (426)

For the purposes of the cash flow statement, cash and cash equivalents comprise of balances held with less than 90 days to maturity from the date of acquisition including treasury and other eligible bills and amounts due from banks net of bank overdrafts. In the balance sheet, bank overdrafts are included within liabilities within the caption 'Due to banks and other financial institutions'

'Central bank deposits and other deposits in support of European Investment Bank loans' which are included in 'Cash and advances to banks' are not available for use in FCE's day to day operations and hence are excluded from 'Cash and cash equivalents' for the purposes of the cash flow statement

Notes to the consolidated financial statements for the year ended 31 December 2011

46 FCE AND OTHER RELATED PARTY INFORMATION

Domicile United Kingdom (UK)

Legal form The Company is a regulated bank, authorised as a deposit taking business and insurance intermediary under the Financial Services and Markets Act of 2000 and is regulated by the UK Financial Services Authority. The Company also holds a standard license under the UK Consumer Credit Act of 1974 and other licenses to conduct financing business in other European locations. In addition to the UK, the Company has branches in 11 other European countries having exercised passport rights to undertake regulated activities in these countries pursuant to the Banking Consolidation and Insurance Mediation Directives.

Country of registration The Company is a public limited company incorporated and registered in England and Wales.

Registered office Central Office - Eagle Way, Brentwood, Essex, CM13 3AR. Registered in England and Wales no 772784.

The Company has six UK subsidiaries (see Note 24 'Investments in group undertakings'), five of which share the same registered office as the Company.

Volvo Car Finance Limited has its registered office at

Globe Park,
Marlow,
Buckinghamshire,
SL7 1YQ

In addition the Company has subsidiaries in the Czech Republic, Hungary and Poland and Sweden and a joint venture in the Nordic region - refer to 'European Operating Locations' on page 129 for addresses of the Company's European branches and subsidiaries.

Nature of operations and principal activities FCE's primary business is to support the sale of Ford and affiliated manufacturer's vehicles in Europe through the respective dealer networks. A variety of retail, leasing and wholesale finance plans are provided in the markets which FCE operates.

In European markets, FCE offers most of its products and services under the Ford Credit or Ford Bank brands—refer to European Operating Locations on page 129 for further details. The Company through its Worldwide Trade Finance (WTF) division provides financing to importers and distributors in countries where typically there is no established local Ford presence. WTF currently provides finance in nearly 70 countries. In addition there are private label operations in some European markets.

Immediate parent undertaking The Company's immediate parent undertaking is Ford Credit International Inc (FCI). FCI does not produce consolidated accounts being wholly owned by, and consolidated into the accounts of Ford Motor Credit Company LLC (Ford Credit). For further details refer to Note 31 'Ordinary shares and share premium'.

Ultimate parent undertaking The ultimate parent undertaking and controlling party is Ford Motor Company (Ford). All three companies (Ford, FCI and Ford Credit) are incorporated in the United States of America.

Copies of the consolidated accounts for Ford Credit and Ford may be obtained from Ford Motor Company (US), One American Road, Dearborn, Michigan 48126, United States of America.

47 POST BALANCE SHEET EVENTS

There were no post balance sheet events.

Key financial ratios and terms

The table below summarises the calculation of the key financial ratios referred to in the 'Performance summary' section of the 'Review of 2011'. The cost, margin and credit loss ratios exclude exceptional items in order to show underlying or 'normalised' performance. Exceptional items are summarised in Note 9 'Profit before tax'.

		2011 £ mil	2010 £ mil
ADDITIONAL DATA			
	Notes		
A (i)	Average net loans and advances to customers	£ 10,551	£ 11,227
A (ii)	Net loans and advances to customers	15 9,811	10,818
A (iii)	Risk weighted exposures	10,608	11,829
A (iv)	Collective impairment allowance	16 62	81
B (i)	Average year equity	2,450	2,742
B (ii)	Tier 1 capital	33 2,243	2,510
B (iii)	Total regulatory capital	33 2,480	2,789
INCOME			
	- Total income	570	564
	- Deduct exceptional items	9 (5)	(7)
	- Depreciation of operating lease vehicles	19 (174)	(100)
C	Normalised income (margin)	391	457
OPERATING COSTS			
	- Operating expenses	5 (201)	(215)
	- Office equipment and leasehold amortisation	19 -	-
	- Exceptional expense/(income)	9 -	22
D	Normalised operating Costs	(201)	(193)
CREDIT LOSS			
	Net losses	16 (20)	(40)
	Exceptional items	9 -	3
E	Normalised net losses	(20)	(37)
F	Profit after tax	123	161
KEY FINANCIAL RATIOS			
Return on equity (F/B(i))		5.0%	5.9%
Margin (C/A (i))		3.7%	4.1%
Cost efficiency ratio (D/A (i))		1.9%	1.7%
Cost affordability ratio (D/C)		51.4%	42.2%
Credit loss ratio excluding exceptional loss (E/A (i))		0.19%	0.33%
Credit loss cover (A (iv)/A (ii))		0.6%	0.7%
Tier 1 capital/Risk weighted exposures (B (ii)/A (iii))		21.1%	21.2%
Total regulatory capital/Risk weighted exposures (B (iii)/A (iii))		23.4%	23.6%

Financial terms	Meaning
Average net loans and advances to customers	The balance of net loans and advances to customers at the end of each month divided by the number of months within the reporting period
Exceptional items	Typically non-recurring events or transactions of which disclosure aids the interpretation of performance compared to previous years
Gross receivables	Total payments remaining to be collected on loans and advances to customers (refer to Note 15 'Loans and advances to customers')
Net receivables	Loans and advances to customers as reported in the balance sheet representing 'Gross receivables' including any deferred costs/fees and less provisions and unearned finance income and unearned interest supplements from related parties (refer to Note 15 'Loans and advances to customers')
Normalised	Excluding exceptional items (refer to Note 9 'Profit before tax')
Risk Weighted exposures	Exposures multiplied by the appropriate percentage risk weighting required for Basel capital adequacy purposes including a notional asset value for market and operational risk
Tier 1 Capital	Share capital, share premium, audited retained earnings, net of intangible assets, goodwill and certain other adjustments to comply with regulatory requirements
Total regulatory capital	'Tier 1 Capital' plus qualifying subordinated loans and collective impairment allowances

Website addresses

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

Additional data	Website addresses
FCE Bank plc <ul style="list-style-type: none"> • 'Annual Report' • 'Interim Report' • 'Basel Pillar 3 Report' • 'Management Statement' 	http://www.fcebank.com or http://www.fordfinancialeurope.com To access from the above links click on 'Investor Information'
Ford Motor Company (Ultimate Parent Company) including <ul style="list-style-type: none"> • 'Financial Results' • 'Annual Reports' • 'US SEC EDGAR filings' Footnote 1 and 2 	http://www.ford.com/about-ford/investor-relations To access from the above link click on 'Company Reports'
Ford Motor Credit Company including <ul style="list-style-type: none"> • 'Company Reports' Footnote 2 • 'Press Releases' • 'Ford Credit public asset-backed securities transactions' Footnote 3 	http://www.fordcredit.com/investorcenter To access from the above link click on 'Company Reports' and then required item
Luxembourg's Stock Exchange which includes <ul style="list-style-type: none"> • Euro Medium Term Note Base Prospectus (refer to Note 28 'Debt securities in issue') 	www.bourse.lu To access search for 'FCE'
Financial Reporting Council <ul style="list-style-type: none"> • The Combined Code on Corporate Governance 	http://www.frc.org.uk

Additional information
Footnote 1 Securities and Exchange Commission (SEC) Electronic Data Gathering and Retrieval (EDGAR)
Footnote 2 SEC filings include both SEC Form 10K Annual report and SEC Form 10Q Quarterly reports
Footnote 3 'Ford Credit public asset-backed securities transactions' Incorporates European retail public securitisation data including the following report types <ul style="list-style-type: none"> • Offering Circulars • Monthly Rating Agencies Report • Monthly Payments Notification • Monthly Note holders' Statement

European operating locations

FCE's branches and subsidiaries historically have provided retail and wholesale finance for Ford vehicles and Ford affiliated manufacturers in Europe under various trading styles, as indicated below. FCE is now focusing on financing Ford vehicles. Jaguar, Land Rover, Mazda and Volvo have transitioned their financial services business to other finance providers. FCE branch and subsidiary locations listed below have ceased purchasing new Volvo, Jaguar, Land Rover, and Mazda business, although they will continue to service existing liquidating portfolios in many of the markets.

Location	Address	Trading Styles
<u>The Company's Branch locations</u>		
AUSTRIA	Ford Bank Austria Zweigniederlassung der FCE Bank plc, Fuerbergstrasse 51, Postfach 2, A-5020 Salzburg	F, JFS, LRFS, M, VCF
BELGIUM	FCE Bank plc, Hunderenveldlaan 10, B-1082 Brussels (also conducts business in Luxembourg)	F, JFS, LRFS, VCF, M
BRITAIN	FCE Bank plc, Central Office, Eagle Way, Brentwood, Essex CM13 3AR (For a full list of UK subsidiaries refer to Note 24)	F, VCF
FRANCE	FCE Bank plc, Succursale France, 34 Rue de la Croix de Fer, Saint-Germain-en-Laye, 78174	F, JFS, LRFS, M, P, VCF
GERMANY	Ford Bank Niederlassung der FCE Bank plc, Mazda Bank Niederlassung der FCE Bank plc Jaguar Financial Services Niederlassung der FCE Bank plc Land Rover Financial Services Niederlassung der FCE Bank plc All four branches based at Josef-Lammerting-Allee 24-34, 50933 Köln	F M JFS LRFS
GREECE	FCE Bank plc, 4 Konstantinoupolos Ave & Gonata St, 12133 Peristeri, Athens	F, VCF
IRELAND	FCE Bank plc, Ground Floor, Block 1, The Oval, Shelbourne Road, Ballsbridge, Dublin 4	F, LRFS, VCF, HFS, M
ITALY	FCE Bank plc/FCE spa, Via Andrea Argoli 54, 00143 Rome	F, JFS, LRFS, P, M, VCF
NETHERLANDS	FCE Bank plc, Amsteldijk 216/217, Postbus 795, 1000 AT, Amsterdam	F, JFS, LRFS, M, VCF
NORWAY	FCE Bank Norsk Avdeling Av Utenlandsk Foretak, Pb 514, 1411 Kolbotn	LRFS, P, VCF, M, R
PORTUGAL	FCE Bank plc, Av Liberdade, n° 249 - 5° Andar, 1250-143 Lisboa, Parish de Coração de Jesus	F, VCF
SPAIN	FCE Bank plc Sucursal en España, Calle Caléndula, 13, 28109 Alcobendas, Madrid	F, P, VCF
<u>The Group FCE's European subsidiaries</u>		
CZECH REPUBLIC	FCE Credit, s r o , Nile House, Karolinská 654/2, 186 00 Prague 8	F, VCF
HUNGARY	FCE Credit Hungária Zrt/FCE Services Szolgáltató Kft, Galamb József u 3 , Szentendre 2000	F, VCF
POLAND	FCE Credit Polska S A /FCE Bank Polska S A , Marynarska Business Park, Tasmowa 7, 02-677 Warsaw	F, VCF
<u>The Group FCE's Joint Venture in the Nordic region (FCE's interest held through Saracen Holdco AB)</u>		
DENMARK	Forso Danmark, filial af Forso Nordic Ab, Borupvang 5 D-E, 2750 Ballerup	VCF, R, M
FINLAND	Forso Finance Oy, Taivaltie 1B, 01610 Vantaa	P, VCF
NORWAY	Forso Nordic, Branch of Forso Nordic Ab, Pb 573, 1410 Kolbotn	LRFS, P, VCF, M
SWEDEN	Forso Nordic Ab, Ravebergsvagen, 405 31 Goteborg (with effect from 29 March 2010 the address will be Torpavallsgatan 9, 416 73 Göteborg)	M, JFS, LRFS

Glossary of defined terms

Financial Terms	Financial terms meaning
Adjusted PBT	PBT excluding exceptional items and financial instruments fair value and foreign exchange adjustments Refer to page 10 of 'Performance Summary'
Average Loss Emergence Period	The estimated time between when a receivables amount becomes impaired to the time the account is written off expressed in years
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
Risk Based Equity (RBE)	The basis on which FCE measures the performance of its locations RBE interest expense is adjusted from that reported under IFRS in order to allocate location equity costs that are based on the locations contribution to FCE total risk and enables the risk/return of individual locations to be evaluated from a total perspective RBE profit before taxes includes an RBE interest expense adjustment and excludes gains and losses related to derivative fair value and foreign exchange adjustments The impact to earnings of derivative fair value and foreign exchange adjustments is primarily related to movements in interest rates and is excluded from the performance measurement as FCE's risk management activities are administered on a centralised basis

Regulatory Terms	Regulatory terms meaning
	For further details refer to Basel Pillar 3 disclosure document – the website address is provided on page 128
ARROW	Advanced Risk Response Operating Framework
Basel II	An international business standard that banking regulators use when creating regulations and the supervisory environment for financial institutions in the European Union so that they maintain enough cash reserves to cover financial and operational risks incurred by their operations Issued by the Basel Committee on Banking Supervision with the framework detailed in the EU Capital Requirements Directive and implemented by national legislation
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance is what the FSA considers to be an adequate level of capital to meet regulatory objectives
Pillar 1	Capital framework which revises the 1988 Accord's guidelines by aligning the minimum capital requirements more closely to each bank's actual risk of economic loss
Pillar 2	Supervisory Review Process of Basel II whereby regulators evaluate the activities and risk profiles of individual banks to determine whether such an organisation should hold higher levels of capital
Pillar 3	Leverages the ability of market discipline to motivate prudent management by enhancing the degree of transparency in banks' public reporting to shareholders and customers
Solvency Ratio	Calculated by dividing 'Total regulatory capital' by the minimum capital requirements calculated under Pillar 1 plus other risk capital requirements and expressing this as a percentage For further details refer to Basel Pillar 3 disclosure
Tier 1 Capital	FCE's Tier 1 capital comprises shareholder funds, net of intangible assets and goodwill (See Note 33 'Components of capital')
Tier 1 Capital Ratio	FCE's Tier 1 capital as reported in Note 33 'Components of capital' divided by end of period risk weighted exposures as defined in 'Key Financial Ratios and Terms' section on page 127
Tier 2 Capital	FCE's Tier 2 capital comprises of subordinated debt, collective impairment losses (See Note 33 'Components of capital')
Tier 3 Capital	FCE does not have a trading book and accordingly its capital structure does not include any Tier 3 capital (See Note 33 'Components of capital')
Total Capital Ratio	FCE's total regulatory capital as reported in Note 33 'Components of capital' divided by end of period risk weighted exposures as defined in 'Key Financial Ratios and Terms' section on page 127

Glossary of defined terms

Other terms	Other terms meaning
2011 Annual Report and Accounts	The FCE's consolidated annual financial statements as at and for the year ended 31 December 2011
Board or Board of Directors	The Board of Directors of FCE Bank plc
Company	FCE Bank plc including all its European branches, but excluding its subsidiaries and SPEs
Dealer or Dealership	A wholesaler franchised directly by Ford, or one of its affiliates, to provide vehicle sales, service, repair and financing See Wholesale below
Derivatives	Financial instruments which take the form of contracts under which parties agree to payments between them based upon the value of an underlying asset or other data at a particular point in time
EMTN	1993 European Medium Term Note Programme launched by FCE for the issue of Notes, including retail securities, to both institutional and retail investors Maximum programme size is now US\$12 billion
FCE or Group	Company and all its subsidiaries and SPEs (See Note 24 'Investments in group undertakings')
FCI	Ford Credit International, Inc., a company incorporated under the laws of Delaware USA, a subsidiary of Ford Credit and the Company's immediate shareholder
Finance lease	Also known as full payout leasing A contract involving payment over a primary/basic period of specified sums sufficient in total to amortise the capital outlay of the lessor, and to provide for the lessor's borrowing costs and profit The lessee normally is responsible for the maintenance of the asset
Ford Credit or FMCC	Ford Motor Credit Company LLC, a limited liability company incorporated under the laws of Delaware USA and an indirect wholly owned subsidiary of Ford
Ford	Ford Motor Company, a company incorporated under the laws of Delaware USA and the Company's ultimate parent company In some cases, this term may mean Ford Motor Company and all or some of its affiliates
Forso / the Forso JV	A joint venture finance company established with CA Consumer Finance, a consumer credit subsidiary of Credit Agricole S A in June 2008 which provides customer and dealer automotive financing in the Nordic markets
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
FSA	The UK Financial Services Authority - an independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000 The FSA is FCE's regulator in the UK
Full Service Leasing or FSL	Fixed monthly vehicle rental for customers, including ongoing maintenance and disposal of vehicle at the end of the hire period Typically FCE retains responsibility for marketing and sales, for which it receives a fee income, and outsources finance, leasing, maintenance and repair services for current and future portfolios of commercial operating leases to a preferred third party under the 'Business partner' brand
Interim Report	The FCE consolidated interim report and financial statements as at and for the half year ended 30 June 2011
JFS	Jaguar Financial Services
LRFS	Land Rover Financial Services
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
Special Purpose Entity or SPE	A bankruptcy-remote special purpose entity whose operations are limited to the acquisition and financing of specific assets (which may include the issue of asset-backed securities and making payments on the securities) and in which FCE usually has no legal ownership or management control (See Note 24 'Investment in group undertakings' for a list of the Company's SPEs)
VCF	Volvo Car Finance
Wholesale	The part of FCE's business that offers financing of a wholesaler's inventory stock of new and used vehicles, parts and accessories May also be known as dealer floor-plan or stocking finance May also include other forms of financing provided to a wholesaler by FCE such as capital or property loans, improvements in dealership facilities and working capital overdrafts See Dealer or Dealership above