FCE Bank plc

ANNUAL REPORT

For the year ended 31 December 2020

FORD **CREDIT**

2020

Contents

Approval of the 2020 Strategic Report

The Strategic Report for the year ended 31 December 2020 as set out on pages 3 to 36 was approved by the Board on 18 March 2021.

Charles Bilyeu   Mar-18-2021

ON BEHALF OF THE BOARD
Charles Bilyeu
Chief Executive Officer
18 March 2021

Company Information

Registered Name:	FCE Bank plc	
Directors:	Tom Schneider	Chair, Non-Executive Director
	Narpal Ahluwalia	Non-Executive Director
	Charles Bilyeu	Chief Executive Officer
	John Callender	Senior Independent Director (resigned 30th September 2020)
	Natalie Ceeney	Non-Executive Director
	John Coffey	Executive Director, Chief Risk Officer (resigned 31st March 2020)
	Talita Ferreira	Non-Executive Director
	Paul Kiernan	Executive Director, Finance
	Brendan O'Connor	Non-Executive Director (appointed 17th September 2020)
	John Reed	Senior Independent Director (appointed 1st October 2020)
	Keith Robinson	Executive Director, Chief Risk Officer (appointed 1st April 2020)
	Carlos Treadway	Executive Director (appointed 14th January 2021)

Company Secretaries:

Abimbola Adesanya (appointed 3rd December 2020)
Howard Cohen
Michael Lavender (resigned 28th February 2021)

Registered Office:

Arterial Road
Laindon
Essex SS15 6EE
United Kingdom

Registered Number: 00772784

Independent Auditors:

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT
United Kingdom

Website: **www.fcebank.com**

Business Model

Organisational Structure

FCE Bank plc (FCE), a public limited company incorporated in England and Wales, is wholly owned by FCSH GmbH (FCSH) and an indirect subsidiary of Ford Motor Credit Company LLC (Ford Credit/FMCC) which is wholly owned by Ford Motor Company (Ford). FCE is authorised by the Prudential Regulation Authority (PRA), regulated by the PRA and the Financial Conduct Authority (FCA).

FCE now operates in 11 European countries through a branch and subsidiary network providing branded financial services for Ford. As a result of FCE's continuous efforts to improve efficiency, reduce complexity and respond to Brexit, its operational footprint has been restructured to focus on its largest markets - the UK, Germany, Italy, France and Spain. As a consequence of this strategy, during 2020 FCE ceased originating new retail and lease business in Switzerland, the Czech Republic and Austria, and completed the transfer of this business to third parties. The current retail business remains with FCE within a liquidating portfolio which will run off to maturity.

The Company also has a Worldwide Trade Finance (WWTF) division, which provides finance to distributors and importers in about 70 countries where Ford has no National Sales Company presence.

FCE provides loans to approximately 914,000 retail customers across its largest 5 locations in Europe and provides wholesale financing to around 931 dealer Groups. FCE's largest markets are the UK and Germany, with the UK market representing 32% of the total FCE portfolio and Germany representing 31%, as shown in the chart on page 9.
FCE provides savings products to approximately 92,000 savings customers primarily in the UK and, more recently, in Germany.

Customers and Products

FCE is integrally tied to Ford and its primary focus is to profitably support the sale of Ford vehicles. It drives value through a focus on:

- Customer service increasing brand loyalty
- A competitive funding structure
- A cost effective and efficient operating structure
- Strong risk management

FCE's business is best described in the context of its four main customer Groups:

FCE supports **Ford customers** to acquire Ford vehicles by providing:

- Lending to retail customers to purchase or lease vehicles
- Access to insurance products to protect customers

FCE supports **Ford dealers** to sell Ford vehicles by:

- Financing new and used vehicle inventory
- Providing an understanding of the automotive dealer business and the financing required to optimise their business model through all economic cycles

FCE supports **savings customers** by offering:

- A range of savings products and ISAs that are easy to open, easy to manage and highly secure
- Competitive rates compared to the high street banks and an attentive, personal service
- A promise for existing customers to enjoy the same rate as new customers

FCE supports **Ford's automotive operations** through:

- A European branded finance network dedicated to supporting the sale of Ford products
- High quality customer service that has been proven to increase customer loyalty to the Ford brand
- Financial risk management support to ensure continuity and viability of the Ford dealer distribution network
- Specialist support for key businesses and new markets

FCE's delivery of high quality service, treating customers fairly, combined with the right finance product for the customer, drives greater loyalty to Ford and the dealer. This generates shorter replacement cycles and incremental vehicle sales and means FCE can pass profits back to its parent and ultimately back to Ford. Ford is then able to reinvest in better products, creating a "Virtuous Circle" for FCE and for Ford overall.

Business Model

COVID-19

On March 11, 2020, the World Health Organisation characterised the outbreak of COVID-19 as a global pandemic and recommended containment and mitigation measures. As a result, extraordinary actions were taken by various national public health and governmental authorities to contain and combat the outbreak and spread of COVID-19 in European regions and throughout the world. These actions included travel bans, quarantines, "stay-at-home" orders, and similar mandates for many individuals to substantially restrict daily activities and for many businesses to curtail or cease normal operations. The impact of COVID-19, including changes in consumer behaviour, pandemic fears and market downturns, and restrictions on business and individual activities, has created significant volatility in the global economy and led to reduced economic activity.

Employee Health and Safety

Consistent with the actions taken by governmental authorities, by late March 2020, nearly all of its employees had begun working remotely in order to reduce the spread of COVID-19. The remote work arrangements have been designed to allow for continued operation of business functions, including originating and servicing customer contracts, financial reporting, and internal control. FCE's internal controls and procedures have incorporated remote work arrangements using appropriate digital tools. For further details on employee engagement, refer to the Non-Financial Statement page 21.

Financial Impact

The economic slowdown attributable to COVID-19 led to a global decrease in vehicle sales in markets around the world. COVID-19 has had a significant negative impact on many businesses and unemployment rates have increased sharply from pre-COVID-19 levels. FCE expects the economic uncertainty and higher unemployment to continue to have a negative impact on vehicle sales demand and result in higher defaults in its retail and wholesale portfolios. A sustained decline in sales could have a significant adverse effect on dealer profitability and creditworthiness.

Government support schemes in different European locations have successfully mitigated the level of losses experienced by FCE during 2020, however, it expects defaults to increase in the future as these schemes end. As a result, FCE's financial results include a significant adjustment to its expected credit loss provision for the impact of COVID-19.

To support its customers and comply with national governmental requirements, FCE has offered various programmes to provide relief to customers and dealers impacted by COVID-19. These programmes included payment extensions which were broadly available to its customers and dealers during 2020. The volume of payment extensions has largely returned to pre-COVID-19 levels in some markets and FCE continues to grant payment extensions to customers and dealers under its normal business practices. In selected markets, these programmes continue into 2021 but are reducing to significantly lower levels than seen in 2020.

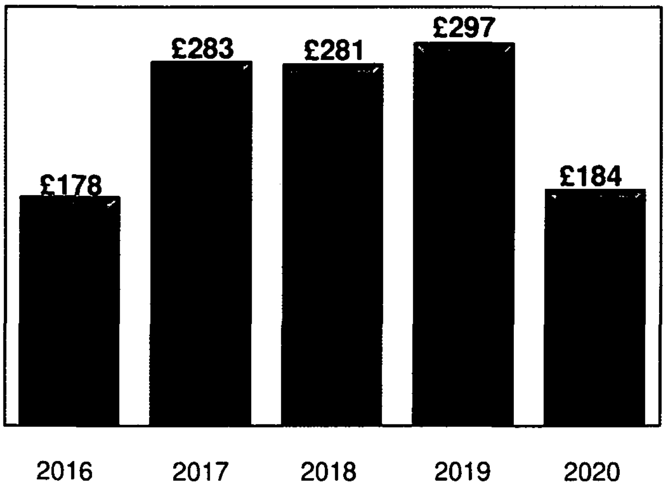
The full impact of COVID-19 on FCE's business and performance depends on future developments, such as the ultimate duration and scope of COVID-19 (including any potential future waves and the success of the vaccination programmes), its impact on customers, dealers, and suppliers, Ford's operations, customer demand for Ford's products, the rate at which economic conditions return to pre-COVID-19 levels and any permanent behavioural changes that COVID-19 may cause. FCE remains committed to continuing to support its customers and employees. Its strong capital, funding and liquidity position means it is well placed to profitably manage the challenges ahead.

Risk

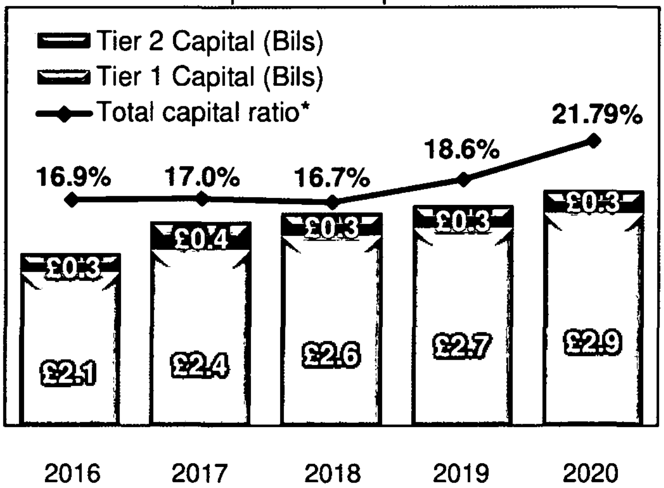
FCE recognises the level of systemic uncertainty in the business environment and has taken various measures to manage risk in its business. The Company has disclosed the effects COVID-19 has had on key risks and other risks and how management continues to monitor and mitigate the impact. For more details, refer to FCE's risk management from page 12.

Highlights

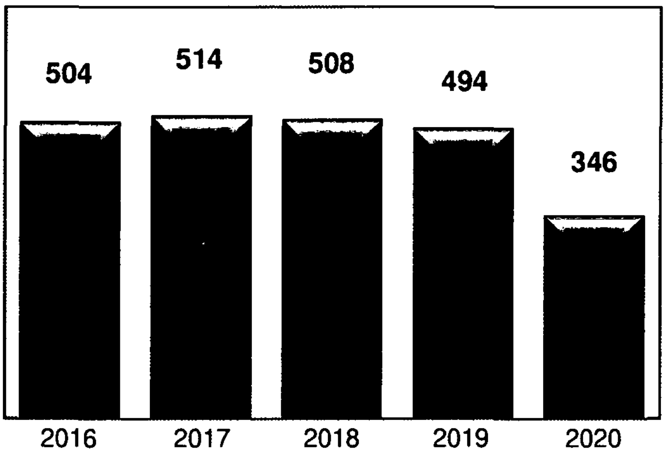
Profit before tax, PBT (Mils)



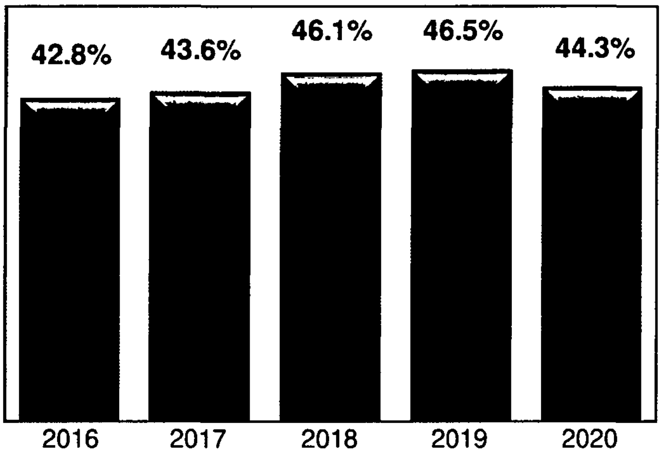
Total capital
*Total capital/Risk exposure amount



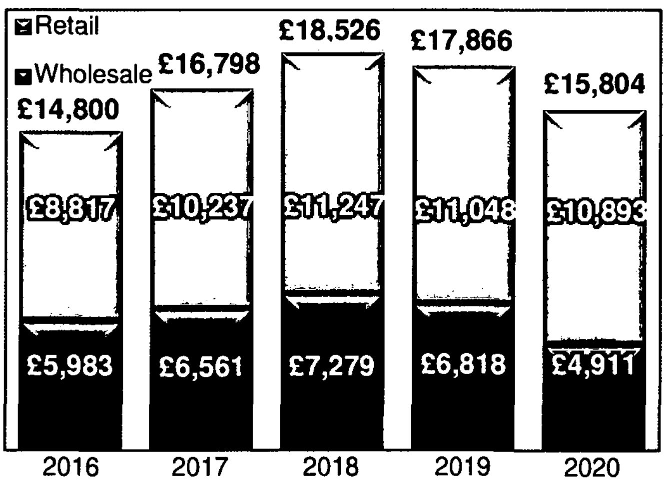
Annual originations of retail/finance lease contracts in top 5 locations (000s)



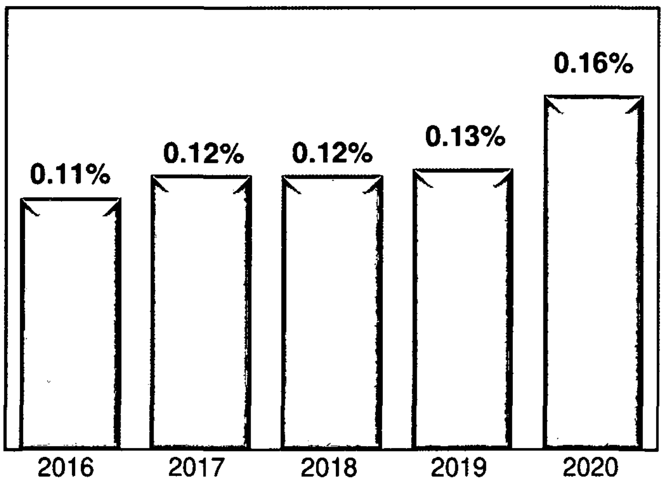
Penetration
FCE new contracts/Ford sales top 5 locations



Total net loans and advances (Mils)



Credit loss ratio
Net credit losses/average net loans and advances



Business Performance

Sales

Retail contracts for the 5 largest locations reduced from 494,000 in 2019 to approximately 346,000 in 2020 reflecting the impact of COVID-19.

Customer Experience

FCE works with independent research companies to measure the customer experience (CX) with FCE across the following touchpoints:

- Start of Agreement (New Customers)
- Inbound Contact
- Log on to Account Online
- End of Agreement (Payoff Customers/ Account Closure)

Ford Customers

Continuing to improve customer satisfaction and experience is a strategic priority for FCE and in 2020, a number of changes were made to the existing programme including:

- A move from measuring customer satisfaction to measuring CX
- Shorter surveys and consistent questions across customer touchpoints aligned globally
- Net promoter score (NPS) became the key corporate metric.

In 2021, FCE will move from multiple suppliers measuring different touchpoints to a single CX supplier. The new CX platform will assist FCE to drive improvements in the NPS and the CX by:

- Providing real time feedback and reporting via an online dashboard
- Providing detailed journey analytics
- Closed loop functionality to ensure issues are efficiently handled and resolved.

Savings Customers

The existing CX platform assists FCE to drive improvements in the NPS and the CX by providing real time feedback from savings customers following inbound calls to the service centre. This feedback informs delivery of customer experience enhancements, and customers who leave negative reviews receive call backs to ensure issues are resolved.

2020 Net Promoter Score (NPS) Performance

	Ford Customers (a)		Saving Customers (a)	
Touchpoints	**2020**	**2019**	**2020**	**2019**
Start of Agreement	56	63	68	75
Inbound Contact	43	53	57	70
Log on to Account Online (b)	32	N/A	54	68
End of Agreement	56	63	32	52

(a) Metrics for Ford customers in FCE's largest markets, for savings customer in UK only
(b) For Ford customers, baseline metrics were obtained in 2019 for all touchpoints except 'Log on to Account Online'.

Net Promoter Score (NPS) is an index ranging from -100 to 100. Customers are surveyed on one single question. They are asked to rate on an 11-point scale the likelihood of recommending FCE's products to a friend or colleague. The NPS score is calculated by subtracting the percentage of 'Detractors' (those rating 0 to 6 on the recommend question) from the 'Promoters' (those rating 9 or 10 on the same question)

The decline in 2020 NPS performance metrics were largely attributed to the impact of COVID-19 on customer service levels. Since the start of COVID-19 outbreak, FCE's service centres experienced significant increases in call volume which resulted in customers experiencing longer wait times and/or issues taking longer to resolve.

Despite a decline in NPS during 2020, the majority of comments from customers about their experience with FCE have been very positive. Ford customer's ratings of 'Treated Fairly' and 'Trust Ford Credit' were stable versus prior year. Savings customers' ratings of 'Treated Fairly', 'Use Again' and 'Ford Money Is A Brand I Trust' were stable versus prior year.

Business Performance

Dealer Experience

FCE discontinued its annual dealer satisfaction survey in 2019. FCE continues to obtain dealer feedback through a variety of sources including the Dealer Advisory Board and Syndicated Manufacturer Surveys. In 2021 a new method of measuring the dealer experience will be implemented. This is currently being piloted in Ford Credit North America and utilises the new CX platform to obtain dealer feedback and provide real time reporting.

Profit Performance

FCE's Profit Before Tax (PBT) of £184 million in 2020 decreased by £113 million compared to the previous year. Excluding fair value adjustments to financial instruments and gain or loss on foreign exchange, the profits from operating activities of £216 million decreased by £100 million. The decrease in profit from operating activities is driven by lower receivables, reduced margins and changes in credit loss reserves primarily due to the economic impact of COVID-19.

Profit performance	**Note**	**2020 £ mil**	**2019 £ mil**
Profit from operating activities		216	316
Fair value adjustments to financial instruments	10	(3)	(65)
Gain/(loss) on foreign exchange	7	(29)	46
Profit before tax (PBT)		**184**	**297**

Alternative Performance Measures (APMs)

To evaluate performance, FCE uses a number of financial measures that are not defined or specified in the financial reporting framework (IFRS). These are often referred to as Alternative Performance Measures (APMs). The APMs disclosed in this report are the profit from operating activities (defined above) and the four Key Performance Indicators (KPIs) defined in the table below. The variances are all impacted by movements in the exchange rates used to translate non-sterling transactions.

Reconciliation of KPIs to financial statements

Financial statements data:		**Note**	**2020 £ mil**	**2019 £ mil**
A	Total income		736	1,019
B	Depreciation of operating lease vehicles	15	(190)	(400)
C	Net credit losses*	13	(26)	(23)
D	Operating expenses	5	(275)	(276)
E	Profit before tax		184	297
F	Total assets		19,534	20,539
Additional data:				
G	Average net loans and advances to customers		16,903	17,927
	Key performance indicators:			
	Margin ratio ([A+B]/G)		3.25%	3.45%
	Credit loss ratio (C/G)		0.16%	0.13%
	Cost efficiency ratio (D/G)		1.63%	1.54%
	Return on Assets (E/F)		0.94%	1.45%

*Net credit loss is defined as total write offs less recoveries

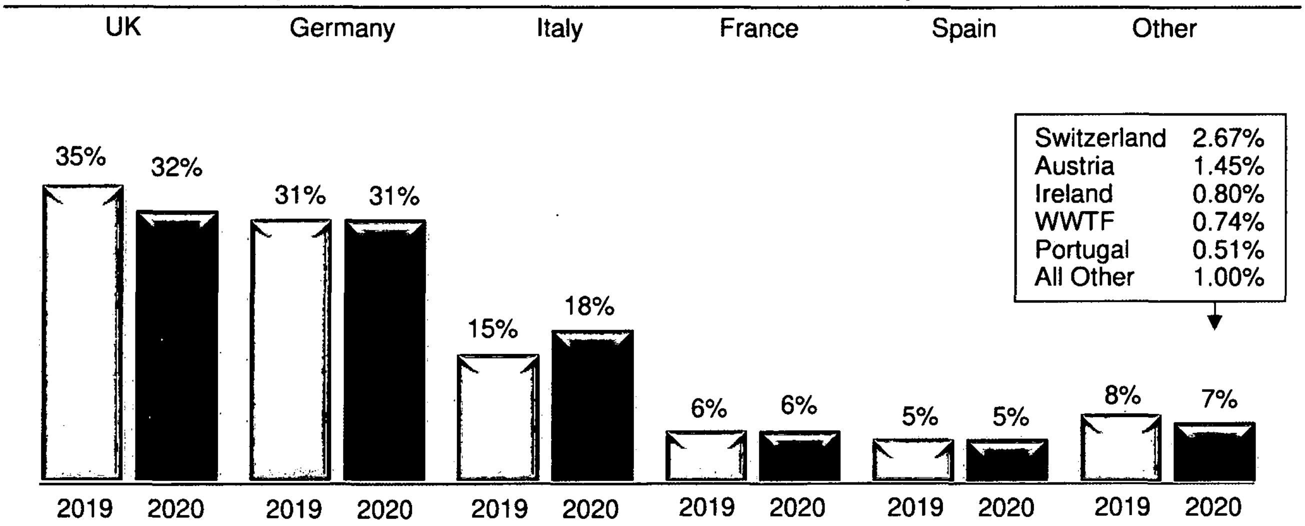
Business Performance

Net Loans and Advances to Customers

FCE's loan portfolio reduced in 2020 with net loans and advances decreasing to £15.8 billion in 2020 from the 2019 year end position of £17.9 billion.

An analysis of FCE's net loans and advances by market as at 31 December 2020 and 31 December 2019 is set out in the chart below.

Analysis of net loans and advances to customers by market

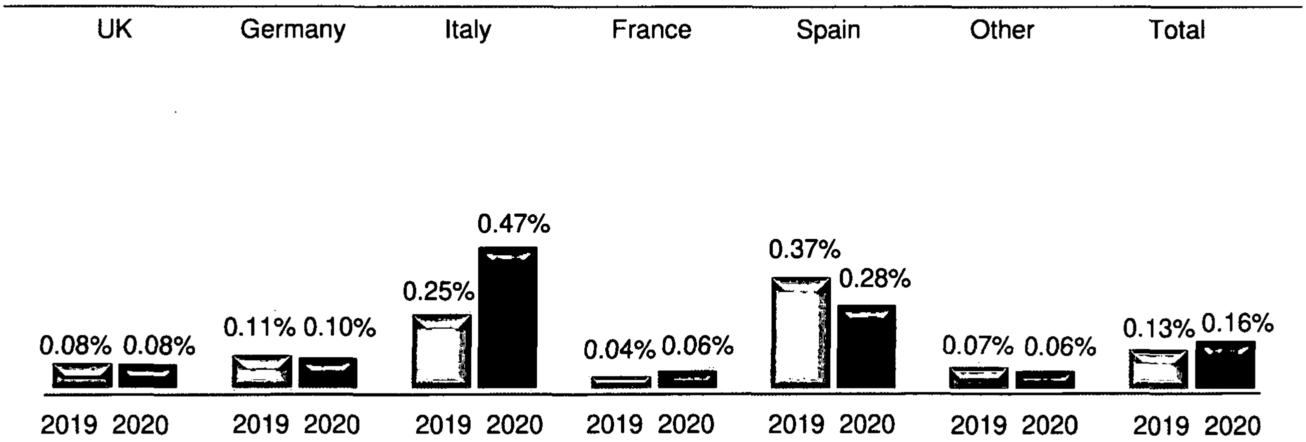


Net Credit Losses

The 'Net Credit Losses' chart below expresses net credit losses for both wholesale and retail financing as a percentage of average net loans and advances to customers.

FCE's overall net credit loss ratio of 0.16% (2019: 0.13%) reflects a retail loss ratio of 0.21% (2019: 0.21%) and a wholesale loss ratio of 0.05% (2019: nil), which are better than planned levels in aggregate.

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



Business Performance

Capital

FCE's policy is to manage its capital base to targeted levels that exceed all current and expected future regulatory requirements. FCE's regulatory capital adequacy is managed through its monthly Asset and Liability Management Committee (ALCO) in which actual and projected capital positions are monitored against capital requirements as determined by Internal Capital Adequacy Assessment Process (ICAAP) and minimum regulatory levels.

As at 31 December 2020, FCE's Common Equity Tier 1 (CET 1) ratio was 19.54% (2019: 16.54%) and the total capital ratio was 21.79% (2019: 18.64%). During 2020, FCE's leverage ratio remained well above 3.0%. For more details see the unaudited 'Pillar 3 Disclosures' which starts on page 139.

FCE did not pay a dividend in 2019 or 2020. FCE's 2021 dividend planning will consider future receivables levels and profits while maintaining a capital ratio that exceeds regulatory requirements and internal targets.

Funding Sources

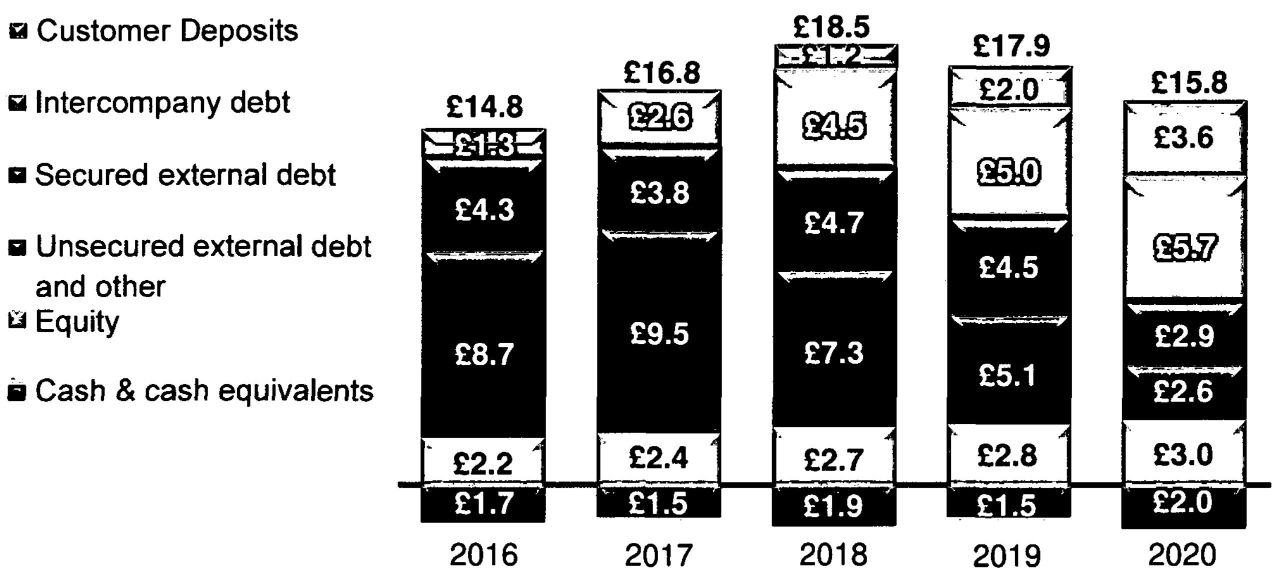
FCE's funding strategy focuses on diversification, accessing a variety of markets, channels, and investors, including government-sponsored funding programmes.

During 2020, FCE increased its customer deposits, supported by the UK Financial Services Compensation Scheme (FSCS), by £1.6 billion to £3.6 billion representing 18% of total assets as at 31st December 2020. FCE's German subsidiary, Ford Bank GmbH (FBG), launched customer deposits in December, which will enable future growth in this funding segment.
Also, FCE received intercompany loans from FMCC totalling £0.7 billion. This included a five-year issue for €750 million, and a three-year issue for CHF230 million to fund Switzerland assets. FCE had unsecured debt maturities of £2.3 billion and issued no unsecured external debt in 2020.

In the secured funding segment, FCE expanded its assets eligible as collateral in ECB monetary operations, in the form of structured asset backed securities, taking the opportunity to utilise the ECB's longer-term refinancing operation (PELTRO) for €350 million in December. FCE issued no public securitisation debt.

For further details see the 'Funding Structure' chart below.

Funding structure – total net loans and advances to customers (Bils)



Business Performance

Credit Ratings

FCE's short-term and long-term unsecured debt is rated by three major credit rating agencies: Fitch, Moody's and Standard & Poor's (S&P).

FCE's ratings are closely associated with the credit ratings of Ford and Ford Credit, and the rating agencies presently assign the same ratings to FCE, with the exception of S&P, as they do to Ford and Ford Credit.

The credit ratings table below summarises the long-term senior unsecured credit ratings, short-term credit ratings and the outlook assigned to FCE.

Credit Ratings	Fitch*	Moody's*	S&P
Long-Term Senior Unsecured	BB+	Ba2	BBB-
Short -Term Unsecured	B	NP	B
Outlook/Trend	Negative	Negative	Negative

*Based on parental rating.

Liquidity Profile

FCE's financial position is inherently liquid because of the short-term nature of FCE's loans and advances to customers and cash compared to its debt.

For additional information with regard to contractual maturities of receivables and debt, see Note 33 'Liquidity Risk'.

Future Prospects

To ensure ongoing support for customers, dealers and Ford, FCE has executed its Brexit contingency plans for the European markets in which FCE operates, ensuring that the necessary licences and permissions are in place to continue operations. Additionally, FCE has established a new finance company in Italy and a new Austrian branch of the Ford Bank GmbH. These are planned to start operating in 2021. FCE's UK business as well as its subsidiary companies were not affected and they continue to operate using their existing licences.

FCE has completed its strategy of restructuring to focus on its largest markets. In 2021, FCE expects to reduce staffing in smaller markets to create an efficient operating model reflecting the transfer of new retail financing business to third parties during 2020.

During 2020, Ford and FCE launched a digital channel in the UK and France, enabling customers to configure and apply for finance on the new Mustang Mach E, Ford's flagship electric vehicle. This will be expanded in 2021 to enable customers to complete the transaction online and include other markets and Ford vehicles.

Also in 2020, Ford announced Ford Fleet Management, a Joint Venture between Ford and ALD Automotive to deliver integrated leasing and fleet management solutions for European customers. During 2021, FCE expects that the Ford Lease business will progressively transfer into the Ford Fleet Management joint venture.

FCE's German subsidiary, Ford Bank GmbH, launched retail deposits in December 2020, providing easy access and fixed term products via the online savings brand, Ford Money; in 2021 FCE expects this funding source to grow.

At year-end 2021, FCE anticipates 'Net loans and advances to customers' to be in the range of £16.1 billion to £17.1 billion, subject to the impact of COVID-19 as described below.

The statement is based on the best available data at the time of issuance. FCE notes that COVID-19 is continuing to evolve and that the impact in many European markets has created uncertainty regards the economic outlook. FCE is confident that its capital and liquidity plans which include scenario modelling, put it in a good position to manage the potential impacts of reductions in vehicle sales and increases in credit losses that could result from a severe recession. It is committed to continue to liaise closely with its customers, Ford, regulators and other stakeholders as the situation evolves, to mitigate impacts to the extent possible. 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.

Business Environment

Risk Profile and Management

FCE is an automotive captive with a mission to provide stable funding and risk management throughout all economic cycles.

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

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

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

Risk Management

FCE's risk management is based on the principles of the Committee of Sponsoring Organisations (COSO), the Treadway Commission ERM Framework and supported by its Three Lines of Defence.

FCE's risk appetite is set annually by its Board of Directors (the Board) and is clearly defined, monitored and managed through its Risk Appetite Framework. FCE has established processes for its identification of risks arising from its activities and manages each form of risk uniquely in the context of its contribution to overall risk. Business decisions are evaluated on a risk aware and risk adjusted basis and are priced consistently with these risks.

Risk Appetite and Monitoring

The Risk Appetite Framework is integrated within the Governance structure of FCE and informs the day-to-day risk management processes/policies which minimise the risk of unexpected losses. FCE conducts close monitoring of the risks in line with its defined risk appetite, and applies, proactive risk mitigating actions and controls which have been developed based on nearly 60 years of experience in the automotive lending sector.

The Risk Appetite Framework clearly defines the amount of risk FCE is willing to accept in pursuit of its long-term objectives and is measured across its principal risk categories. The Risk Management function proposes risk appetite thresholds to the Board, and is responsible for recommending either the tolerance, treatment, transfer or termination of any risk tracking towards an out-of-tolerance position to the appropriate governance committee, be that Executive Committee, Risk Committee of the Board or Board of Directors.

FCE's key metrics include credit loss ratios, liquidity adequacy, capital adequacy, cyber risk and operational risk and resilience metrics.

Risk Management and Culture

FCE continues to increase risk awareness by making it an integral part of its culture through communication and training. FCE reviews and seeks to improve its risk management practices in line with industry best practices.

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

Business Environment

First Line of Defence

The first line of defence is the operational staff and departmental management who have responsibility for following policy and procedure to mitigate any risks inherent in the operations of the business. It operates in accordance with FCE's control framework with prescribed controls designed into systems and processes, including self-assessment audit tools and reporting requirements through to the second line of defence.

Second Line of Defence

Central office teams such as Compliance, Risk, and the Internal Controls Office (ICO) undertake the second line of defence and are responsible for pan-European policy and procedures executed by the first line management.

Each of the control functions in the second line of defence report into one or more of FCE's committees as delegated by the Board. These committees monitor and challenge performance metrics, review key risk indicators and escalate, as appropriate, through FCE's governance structure.

Third Line of Defence

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

FCE also recognises the importance of the Risk Committee, Audit Committee, Non-Executive Directors (NEDs), external auditors and consultants in providing independent insight and challenge to FCE's risk management and control framework leading to a culture of continuous improvement.

Risk Committee of the Board

The Committee monitors and reviews FCE's systems for risk management and compliance with financial services legislation and regulatory requirements. The committee met five times during 2020.

The Chair of the Risk Committee formally reports to the Board after each meeting on how its duties and responsibilities have been discharged.

The core responsibilities include:

- Annual review of the bank's risk appetite statements
- Review, as appropriate, inputs scenario assumptions to the company's Internal Liquidity Adequacy Assessment Process (ILAAP) and ICAAP
- Approval of FCE's annual Anti Money Laundering Report
- Review of regulatory reports from the Head of Compliance including money laundering, unusual events and regulatory audit reports to ensure appropriate actions are being taken where required
- Provide oversight and direction to the company's whistleblowing and fraud procedure
- Recommendation of approval to the Board of a number of policy letters covering topics such as Regulatory Compliance, Vehicle Residual Value Risk, Operational Risk and Resilience, Large Exposure and Outsourcing Arrangements, in each case ensuring the policies are consistent with FCE's strategy and risk appetite
- Provide direction on establishing the bank cyber resilience strategy
- Environmental, social and governance risk and model governance risk

Business Environment

Whistleblowing

FCE has a whistle blowing procedure for the confidential and anonymous submission by employees of concerns regarding business, accounting, and internal controls or auditing matters.

Principal Risks and Uncertainties

FCE defines its principal risks as those key risks which are set out on pages 14 to 19. 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 sensitive to such risks.

COVID-19 continues to create significant economic uncertainty, partially mitigated by government actions taken in response. If new strains of COVID-19 develop or sufficient amounts of vaccines are not available, not widely administered for a significant period of time, or otherwise prove ineffective, the impact of COVID-19 on the global economy, and, in turn Ford and FCE's financial condition, liquidity, and results of operations could be material. FCE's business is focused on financing Ford vehicles, and the duration or re-emergence of COVID-19 or similar public health issues may negatively impact the level of originations.

FCE's ability to obtain unsecured and intercompany funding at a reasonable cost is dependent on its and FMCC's credit ratings or the perceived creditworthiness. Further, FCE's ability to obtain securitised funding under its committed asset-backed liquidity programmes and certain other asset-backed securitisation transactions is subject to having a sufficient amount of assets eligible for these programmes, as well FCE's ability to obtain appropriate credit ratings and, for certain committed programmes, derivatives to manage the interest rate risk. Over time, and particularly in the event of credit rating downgrades, market volatility, market disruption, or other factors, FCE may reduce the amount of receivables it purchases or originates if there is a significant decline in the demand for the types of securities it offers or FCE is unable to obtain derivatives to manage the interest rate risk associated with its securitisation transactions. A significant reduction in the amount of receivables FCE purchases or originates would significantly reduce its ongoing results of operations and could adversely affect its ability to support the sale of Ford vehicles. The potential risk impacts of LIBOR transition and negative interest rates could cause market volatility or disruption. It is difficult to predict the effect of this change, or other reforms, but the LIBOR transition could adversely affect FCE's access to the debt, securitisation, or derivative markets and its cost of funding and hedging. Regular reviews are conducted on negative interest rates within FCE to be prepared both operationally and financially for such an eventuality.

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

The automotive industry is facing threat from an emerging global semiconductor shortage. A combination of factors is contributing to the shortage of semiconductors. Global semiconductor makers allocated more capacity to meet surging consumer electronics demand as automotive implemented industry-wide shutdowns during COVID-19. In 2020, when global automakers resumed vehicle production combined with the rapid recovery of demand for vehicles, production strains increased on a complex semiconductor supply chain that's facing long lead times for wafer production. A sustained shortage of semiconductors, or other key components, can cause a significant disruption to Ford's production schedule and have a substantial adverse effect on Ford's financial condition or results of operations. This in turn may negatively impact FCE's business, whose focus is to profitably support the sale of Ford vehicles.

Key Risks

FCE's Pillar 1 capital requirements are calculated using prescribed methods aligned with the standardised approach for each of the following risk types:

- Credit risk including counterparty credit risk
- Operational risk
- Market risk

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

Credit Risk

As a provider of automotive financial products, FCE's primary credit risk is the loss from a retail customer's or dealer's failure to make payments according to contract terms. Credit risk is mitigated in the majority of FCE's retail, leasing and wholesale financing plans through title retention or a similar security interest in the financed vehicle. In the case of default, the value of the repossessed collateral provides a source of protection. FCE's credit risk policy permits the grant of payment deferrals to provide short-term support to its retail, leasing and wholesale customers.

Business Environment

FCE applies the standardised approach for assessing the Pillar 1 capital requirements for credit risk using standard industry-wide risk weightings based on the classification of asset and counterparty types. The unaudited 'Pillar 3 Disclosures' section, which starts on page 139, gives more detail on FCE's credit risk exposures, their relationship to FCE's Statement of Financial Position and the capital requirements they derive.

Retail and Finance Lease (Consumer and Commercial) Credit Risk Management

'Retail' typically includes Conditional Sale, Balloon Conditional Sale, Hire Purchase, Balloon Hire Purchase, Credit Sale, and Retail Financing introduced through a dealer to individual consumers, sole traders and businesses, as well as assets purchased by customers under conditional sale agreements and leased under finance leases.

Retail contracts are primarily fixed-rate, retail contracts or finance leases which generally require customers to pay equal monthly payments over the life of the contracts. Trade Cycle Management (TCM) contracts are retail contracts that provide customers with the choice to purchase, trade-in or hand back the vehicle at the end of the contract.

Retail products are classified by term and whether the vehicle is new or used. This segmentation is used to assist with product pricing to ensure risk factors are appropriately considered.

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

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

FCE operates centralised originations, servicing and collections activities, in all locations, which creates economies of scale and enhances process consistency. The UK and Germany locations use advanced servicing technology, risk management techniques and controls. These include customer behavioural models that are used in contract servicing to ensure appropriate collection attention.

Repossession is considered as a last resort. After proceeds are applied from the sales of repossessed vehicles, collection of the remaining balance continues where legally permitted until the account is paid in full or it is deemed by FCE to be economically uncollectable.

For further details refer to Note 29 'Credit Risk'.

Vehicle Residual Value Risk

This is the risk that the actual proceeds realised by FCE upon the sale of a returned vehicle at the end of the contract will be lower than that forecast at the beginning of the contract. FCE is prepared to incur vehicle residual value risk, predominantly in respect of Ford brand vehicles. Vehicle residual values are set based on a careful evaluation of internal and external data sources and are subject to review and approval by the appropriate committee.

Trade Cycle Management (TCM) contracts, which represent the majority of finance plans where FCE accepts residual value risk, are typically set below expected market value. This approach generates equity for the customer at the end of the contract and to provide protection for FCE against residual value risk. Other contracts are set at the expected future value of the vehicle. The unforeseen impact of COVID-19, on used vehicle values and the wider macro economic conditions, has generated uncertainty in the vehicle market which could result in lower than expected used values over time. FCE continues to monitor used values and seek independent third party trade guide opinion in its decision making processes.

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

For further details refer to Note 30 'Vehicle residual values'.

Business Environment

Wholesale Credit Risk Management

'Wholesale' primarily includes financing to Ford franchised dealers to fund inventory of new and used vehicles, (vehicle wholesale financing, demonstrator or courtesy vehicles) and to a much lesser extent, spare parts and loans for working capital. For the vast majority of FCE's dealer financing products security is taken in the underlying vehicle asset.

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

All credit exposures are reviewed annually. 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.

Wholesale lending generally requires dealers to pay a floating rate and include receivables from dealerships that are either partly or wholly owned by Ford.

2020 has seen unprecedented challenges, not least due to COVID-19 and the impacts it has had globally on customers, both retail and commercial. During this time FCE has worked closely with Ford to not only maintain but strengthen its communication and relationships with its dealer and commercial partners. FCE has worked with each individual partner to understand the impact that the crisis has had on their business, and in particular their immediate cashflow situation. From this it has developed and implemented a number of actions to provide support through the initial crisis period including capital and interest extensions. FCE has enhanced its existing risk management processes with additional tools, monitoring processes and developed bespoke reporting through to senior executives.

Initial government lockdowns resulted in the majority of dealers in impacted markets being closed for vehicle sales, however in more recent lockdowns, most governments have permitted 'Click and Collect', or 'Click and Deliver' sales which has enabled the large majority of dealers to maintain sales through these restrictions. Dealers have also benefitted from unprecedented levels of government aid to support their cash positions including employee furlough schemes, government supported loan schemes and payment moratoria. These have varied by market but have been tracked closely as part of the individual additional dealer monitoring implemented. Standard vehicles auditing has been maintained where local government restrictions permit. Where physical audits have not been possible, remote audits have continued to be undertaken where possible.

For further details refer to Note 29 'Credit Risk'.

Counterparty Credit Risk

FCE could incur a credit loss if the counterparty to an investment, deposit, interest rate or foreign currency derivative with FCE defaults. This is known as counterparty credit risk and FCE uses the Mark to Market (MTM) method to measure this risk and determine its related capital requirements. More detail on FCE's counterparty credit risk exposures, and capital requirements can be found in the unaudited 'Pillar 3 Disclosures' which start on page 139.

In addition to a credit loss caused by a counterparty default, banks can also suffer Mark to Market losses associated with the counterparty's creditworthiness and this is termed credit valuation adjustment (CVA) risk. FCE does not consider CVA to be a key risk. FCE holds Pillar 1 capital for CVA calculated under the standardised approach as prescribed by the Capital Requirements Regulation (CRR). The value of this capital requirement is described in the unaudited 'Pillar 3 Disclosures' in Table 5 on page 147.

Operational Risk and Operational Resilience

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, external events and from outsourced services. Operational resilience is the ability to adapt operations to continue functioning when circumstances change. Operational risk includes risks such as information technology process failure, significant organisational change risk, human error, and lapses in internal controls, fraud or external threats (e.g. cyber-attacks). Processes are in place to identify and assess these risks in order to enable effective risk management. The Risk Control Self-Assessment process (RCSA) is the process used across the business to identify and assess operational risk in line with the Basel Framework.

FCE follows the principles of the Three Lines of Defence model as outlined on page 13, to manage and mitigate operational risk through a robust governance framework. This includes specific committees in place to implement policies, procedures and processes to control or mitigate material exposure to losses.

Business Environment

Based on the guiding principle that management at all levels are responsible for managing operational risk, FCE maintains a strong internal control culture across the organisation. The Modular Control Review Programme, a self-assessment control process used across the business, is used to monitor adherence to key controls.

FCE is indemnified under insurance policies for certain operational 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.

To assess Pillar 1 capital requirements for operational risk, FCE qualifies for both the Basic Indicator Approach (BIA) and the standardised approach. As FCE has two distinct product lines, it has adopted the standardised approach where a firm divides its activities into a number of business lines and applies the relevant beta factor to each one. The value of this capital requirement can be seen in the unaudited 'Pillar 3 Disclosures' in Table 5 on page 147.

FCE's effective response to the impact of COVID-19, including the transition of most of its employees to home-working has demonstrated many aspects of its operational resilience.

Market Risk

This is the risk of adverse impacts to FCE's profits as a result of changes to interest rates and exchange rates.

Interest rate and currency exposures are managed by FCE as an integral part of its overall risk management programme, which recognises the unpredictability of financial markets and seeks to reduce the potential adverse effects on FCE's results.

FCE reduces its exposure to market risk through the use of interest rate and foreign currency exchange derivatives.

FCE's strategy for the use of derivatives is designed only to mitigate risk; derivatives are not used for speculative purposes. For further details, refer to Note 31 'Market Risk'. FCE holds equity in its overseas branches and subsidiaries in order to hedge its capital ratios against movements in exchange rates.

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

FCE's derivatives policy as described on page 114 means it does not have a trading book under CRD IV rules and is therefore only required to hold Pillar 1 capital for its currency PRR under the market risk requirements. The value of the capital requirement can be seen in the unaudited 'Pillar 3 Disclosures' in Table 5 on page 147.

Other Risks

In addition to the risk types outlined on page 14, which are reflected in FCE's Pillar 1 capital requirements, FCE considers a number of other risk areas significant to its business. These are also integrated into FCE's risk management processes and are detailed below:

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

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

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

Pension risk arises from FCE's obligations as a result of participating in defined benefit pension schemes for its employees. The most significant retirement benefit obligations to FCE relate to the UK and German pension plans. These are principally Ford Group sponsored plans in which FCE is a participating employer. FCE recognises that there is inherent volatility in the investment markets that will affect the value of assets of the schemes at any point in time. The pension liabilities also change over time as longevity and other assumptions develop and the balance between the populations of the active workforce and retirees matures. For the UK and German plans, Ford is solely responsible for funding any deficit which may arise from time to time. Should Ford fail to meet its obligations, FCE retains residual legal risk for the UK plans as does Ford Bank GmbH for the German plans.

Business Environment

FCE, in conjunction with Ford, uses internal and external actuaries to review the pension liabilities, the results are taken into account in FCE's capital planning.

FCE, together with Ford, leverages in-house US-based pensions management expertise to assist with recommendations to the fiduciary bodies responsible for the UK and German pension funds on investment strategy and liability management.

Liquidity risk is the possibility of being unable to meet present and future financial obligations as they become due. FCE's strategy is to maintain a diverse range of funding sources to enable it to continue to fund its business in all market conditions. FCE is funded primarily through unsecured and intercompany debt, public and private securitisation, retail deposits and equity, ensures that liabilities which, on average, mature later than assets liquidate.

FCE holds liquidity in the form of cash and committed capacity. FCE's committed capacity is in the form of committed securitisation capacity, (which is free of material adverse change clauses, restrictive financial covenants and credit rating triggers), and contractually committed unsecured credit facilities, (which have similar terms with the exception of certain covenants). FCE also participates central bank programmes, including the Bank of England Window Facility (DWF) scheme, which can act as an additional source of liquidity.

For further details, refer to Note 22 'Securitisation and Related Financing' and Note 33 'Liquidity Risk'.

The Liquidity Coverage Ratio (LCR) requires banks to hold high quality liquid assets (HQLA) to survive a 30-day liquidity stress. FCE has established processes to monitor its HQLA position in accordance with the Commission Delegated Regulation (EU) 2015/61.

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

- Wholesale funding risk
- Funding concentration risk
- Off balance sheet risk
- Cross-currency liquidity risk
- Balance sheet growth
- Franchise-viability risk
- Non-marketable assets risk
- Retail funding
- Intraday liquidity
- Intra-group liquidity

FCE has set a risk appetite against each of these.

Group risk 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. However, this is carefully controlled through FCE's Large Exposure monitoring process and minimised through strong adherence to internal policies which ensure an arm's-length approach to all transactions and services with FCE's parent and other Ford-owned entities. 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 service level agreements which typically provide for ring-fenced capabilities.

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

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

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

Business Environment

Interest rate risk is the risk arising from fluctuating interest rates. FCE's asset base consists primarily of fixed-rate retail instalment sale, hire purchase, conditional sale and lease contracts, with an average life of approximately 3 years, and floating rate wholesale financing loans with an average life of approximately 2 months.

It is FCE's policy to execute interest rate swaps to change the interest rate characteristics of its 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. Further details on FCE's interest risk and interest rate risk management can be found in Note 32b) 'Interest Rate Risk'. FCE also utilises the Economic Value of Equity model to inform its capital requirement for interest rate risk.

Environmental, Social and Governance (ESG) Risk

ESG risk is divided into three elements:

- Environmental risk is the actual or potential threat of adverse effects on living organisms, businesses and the environment by effluents, emissions, wastes, resource depletion and global warming
- Social risk includes the impact of issues of inequality, inclusiveness, labour relations, investment in human capital and communities
- Governance risk is the internal system of practices; controls, required in for governance effective decisions, legal compliance and to meet the needs of external stakeholders.

FCE is developing its approach to Environmental, Social and Governance (ESG) including minimising the potential future impact of financial risks created by climate change.

It expects to develop and implement plans consistent with the response of the industry and its regulators to this emerging risk. The Board has appointed the Chief Risk Officer, under the Senior Managers Regime as the responsible person for climate change issues.

The financial risks from climate change present themselves via two main channels.

- Physical risks arising from increased severity and frequency of climate and weather related events which damage property and infrastructure disrupting business supply chains. These events may reduce asset values, profitability and impact the wider economy by reducing output and productivity.
- Transition risks, which arise from adjustments towards a carbon neutral economy, and require significant structural changes. These changes will require an adjustment to asset values, changes in energy pricing and may have a negative impact on the incomes and credit profile of some borrowers, leading to increased credit losses.

European jurisdictions are focusing on air quality, predominantly in cities. Various statements have been issued indicating a desire to restrict access to, or ban, vehicles with Internal Combustion engines ("ICE") from designated cities, or parts thereof. There has also been a focus on diesel engines in the short to medium term and, there is a risk that residual values for diesel engine vehicles will depreciate at a greater rate than originally forecast. In the longer-term, with the development of electric powered vehicles, combined with legislative changes to the disadvantage of ICE powered vehicles, there could be an adverse impact on FCE's business.

Ford has recently announced its portfolio of vehicles will progressively move towards full electrification, by investing around $22 billion by 2025. All passenger vehicles to have zero-emission versions by 2026 and all electric by 2030. Commercial vehicles will have zero-emission versions by 2024 with an expectation for two-thirds of sales will be plug-in hybrid or all electric by 2030. This will require FCE to adapt its strategies and products to ensure it is able to continue to support Ford sales, whilst protecting its portfolio and its exposure to residual value risk.

The effects of increased scrutiny and CO2 regulation for motor vehicles, including access restrictions for Internal Combustion Engined (ICE) vehicles in a small number of cities, has been assessed and the impact on vehicle values is monitored closely. FCE has processes to identify legislation changes and their future impacts are assessed as appropriate. For receivables where FCE takes the residual value risk, forward looking vehicle values are assessed in the light of such legislation changes and a shift towards vehicles with alternative propulsion types. FCE has relatively short dated receivables, which provide flexibility for it to react relatively quickly to changes, however, also acknowledges that these risks may affect investor's risk appetite and FCE's access to wholesale and retail deposits markets. FCE regularly meets with its investors to gain insight as to potential future changes.

Further information on environmental and social matters can be found in the Non-Financial Statement on page 23.

Business Environment

FCE's Approach to Regulatory Compliance

FCE proactively monitors and implements regulatory changes as necessary and regularly assesses and controls its exposure to regulatory risks through the time bound completion of a compliance monitoring programme. This programme includes FCE's compliance with applicable local regulatory rules and all relevant EU requirements. All potential changes to laws and regulations impacting FCE are captured and implemented within revised policies and procedures as necessary.

Board declaration on adequacy of risk management

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

Non-Financial Statement

Our People

FCE relies on the skills and talents of its dedicated European workforce of around 1,500 individuals for its ongoing success and risk management.

People Strategy

FCE's people policies and practices recognise fully the company's status as a regulated bank domiciled in the UK, and therefore the standards of conduct, behaviour and ethics it is required to meet. FCE aims to be an "Employer of Choice". It 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. In accordance with the company succession planning policy, FCE's people strategy includes the use of Accelerated Development programme to support the recruitment and development of employees and ensure effective succession planning for key roles. FCE has a remuneration and benefits philosophy targeted at achieving overall competitiveness with the external market, rewarding contribution to FCE's performance and retaining key skills. FCE operates a robust training and competency framework to provide individuals with the skills, knowledge and expertise to discharge their responsibilities effectively. In line with the Company's performance management and development processes, regular partnership discussions are held with people leaders in order to align on the employee's goals and results, growth and development, career aspirations and wellbeing.

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, with consideration to 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 to 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 all employees through providing an environment free from discrimination, harassment, bullying and victimisation.

FCE requires all employees to act with integrity and demonstrate ethical behaviour, as set out in Employee Handbooks and related policies. This is supported by a culture where there is a strong focus on risk identification, control and governance as part of the Operational Risk Framework and a senior management team that demonstrates principled decision making through their actions and behaviours.

Employee Communication and Engagement

FCE keeps all employees informed of its activities on a national, pan-European and global level by means of fortnightly e-bulletins, internal intranet, email updates and all-employee meetings. All-employee activities are supported by local location and onsite communications including team meetings, cascades, dedicated project websites and onsite communication screens.

In 2020, during the COVID-19 outbreak, employee communication has increased to help colleagues feel informed and supported particularly whilst working remotely. Specific actions included:

- Regular WebEx employee meetings between directors, management and the entire workforce including open, honest and transparent two-way discussion with staff including questions and answers. These have been welcomed by employees.
- Introduction of a daily Working Remotely Together webinar series providing a variety of support tools and training to assist with the challenges of working remotely, keeping connected and looking after health and wellbeing.
- Frequent communication to raise awareness on mental health and wellbeing issues with supports available to employees through 'FCE's Mental Health First Aiders', 'Occupational Health Service' '24-hr Employee Assistance helpline' and online training course on stress management.
- Remote Working poll to monitor employee experience and seek views to help the organisation better support staff during this period and also help plan return to workplace. This survey was in addition to the regular staff 'PULSE' surveys used to monitor employee satisfaction and culture.
- Switch to timely, digital communications in place of the organisation's quarterly printed magazines (Inside Financial and Inside Financial Europe).

Non-Financial Statement

- Extraordinary email communications providing practical help and clarification of protocols to help support the smooth transition of employees to different ways of working both during the initial phases of working remotely and return to the workplace.
- Return-to-Workplace communications plan with actions designed to provide employees with early notice of return to the workplace and confidence that all reasonable steps have been taken to facilitate a safe return.

Basic Working Conditions and Corporate Responsibility

FCE recognises that employees are its most important resource. In recognition of their contributions, FCE has policies and programmes designed to ensure that its employees enjoy the protection afforded by principles articulated in this report.

FCE also strives to be a good corporate citizen and works to implement policies and programmes to benefit the communities where it operates. Although these principles are not new to FCE, they are important to what it stands for as a company.

FCE has policies that set forth the Company's guiding principles for human rights, labour, and environmental standards throughout its global operations.

The diverse settings in which FCE operates require that statements of its basic working conditions be general in nature. In certain situations, local legal requirements, labour agreements, and other contractual and non-contractual arrangements may modify portions of its statements. Nevertheless, FCE intends its policies to be an affirmation of basic guiding principles that should serve as the cornerstone of its relationship with employees and other stakeholders in the countries where it operates.

Human Rights

It is a goal of FCE to respect human rights in all of its activities. FCE personnel are required to follow the Company's corporate policies and comply with national laws and regulations related to human rights. FCE personnel should also work to reduce the risk of potential human rights violations by identifying risks, monitoring those risks, remediating any non-compliance, and reporting its progress publicly.

Bribery and Corruption

FCE does not tolerate the giving or receiving of money, gifts, or favours to influence in any way the behaviour of another individual, organisation, government employee, politician, or government body in furtherance of a commercial or personal advantage. Bribery is never permitted, even in countries or regions where it may appear to be tolerated or condoned.

Labour

FCE does not use forced labour in any form and does not tolerate physically abusive disciplinary practices. The Company does not use or tolerate human trafficking in its labour force.

Health and Safety

Protecting Health and the Environment and related directives, FCE provides and maintains for all personnel a safe and healthy work environment that meets or exceeds applicable legal standards for occupational safety and health.

FCE's overriding priority during COVID-19 was to ensure it continued to protect the safety of its employees and the wider community. As the crisis broke in March 2020, FCE moved from an office environment to over 95% of employees working from home effectively within days. A variety of support tools and training were rolled out to assist employees with the challenges of working from home, both technologically and mentally. Return to the workplace planning focused on a gradual return and 45% occupancy limits. Onsite new health and safety protocols such as daily attestations, temperature checks, facemasks, increased cleaning regimes and social distancing have been implemented.

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 relevant PRA, FCA 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.

Work Hours

FCE complies with applicable laws regulating hours of work.

Non-Financial Statement

Environmental and Social Matters

FCE is an integral part of Ford's global effort towards a sustainable environment. Ford knows climate change is real and remains committed to doing its part to address it by delivering on CO2 reductions consistent with the Paris Climate Accord. Ford has already charted its course for the future that includes investing more than $22 billion in electrified vehicles by 2025, as well as responsible development of the self-driving car.

With Ford's Creating Tomorrow Together transformation plan the Company is accelerating its efforts to be a leader in mobility and making progress toward its vision of clean, safe, affordable and accessible transportation for all, with less congestion, better air quality, shorter journey times and fewer accidents. Ford foresees smart vehicles operating in a smart world, communicating with each other and the surrounding infrastructure through open-source platforms such as Ford's Transportation Mobility Cloud. To help fulfil the Company's vision, Ford has invested in strategic partnerships with Argo AI and Volkswagen to develop self-driving technology. Ford is also making shorter journeys more efficient through its e-scooter business Spin.

For more information on Ford's sustainability strategy refer to the corporate website.

FCE continues to evidence its long standing commitment to the communities across Europe in which it works with a number of projects and initiatives. This includes empowering all FCE employees to use up to sixteen normal paid work hours each year (equivalent to two paid workdays) to participate in community projects. This approach provided free of charge resources to support diverse projects in local communities across Europe. The company also enables employee fundraising for good causes during office hours.

Non-Financial Statement

Streamlined Energy and Carbon Reporting

FCE reports greenhouse gas (GHG) emissions in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. It follows the HM Government Environmental Reporting Guidelines (March 2019) and have defined the scope of the FCE SECR report as all energy use and carbon emissions from its operations in the United Kingdom, using the financial control boundary approach.

	Energy Consumption kWh	CO2 Emissions Grid Location Based Factors tCO2	CO2 Emissions Market Based Factors tCO2
Scope 1 Energy/Emissions			
Natural Gas	758,205	139	139
Business Owned Transport	173,093	43	43
Total Scope 1 Energy/Emissions	**931,298**	**182**	**182**
Scope 2 Energy/Emissions			
Electricity	1,389,401	324	74
Total Scope 2 Energy/Emissions	**1,389,401**	**324**	**74**
Scope 3 Energy/Emissions			
Employee owned and leased vehicles	58,038	14	14
Total Scope 3 Energy/Emissions	**58,038**	**14**	**14**
Total Scope 1, 2 & 3	**2,378,737**	**520**	**270**

Intensity Metric

Revenue 2020 in mil £	736
tCO2/mil £	0.71

Scope and Methodology

Scope 1 emissions are generated from the gas used in all buildings where FCE operates in the UK and emissions generated from company vehicles used for business travel in the UK.

Scope 2 emissions are generated from the use of electricity in all buildings FCE occupies in the UK.

Scope 3 emissions are generated from employees on company business using their own or leased vehicles.

The reporting period for GHG emissions ran from 1 January to 31 December 2020. Conversion factors were taken from the 2020 UK Government's Conversion Factors for Company Reporting document. Both locations based and market based emissions are presented.

Where possible energy use was determined from sub meter readings. Where the landlord controls the supply via a service arrangement, estimates were made based on the floor space occupied. Transport emissions were determined from fuel expense and mileage claims, which includes business travel in company owned or leased vehicles as well as employee vehicles on company business.

Energy Efficiency Actions Taken

From August 2019 FCE introduced a hot desk office layout in the head office to reduce the office footprint and so reduce emissions from heating. lighting, and employees' commuting. Since the start of the COVID-19 outbreak most FCE employees work remotely for the majority of the week, thus further reducing employee travel and requirements for heating and lighting in the office. Extensive video conferencing facilities have been utilised to significantly reduce business travel. At FCE's European headquarters electricity comes from renewable sources and the offices have been fitted with LED energy efficient lighting. To support the transition to low carbon transportation, electric vehicle charging points have been installed, which employees can use to charge their electric cars whilst at work.

Non-Financial Statement

Supply Chain

FCE encourages businesses throughout its supply chain to adopt and enforce similar policies to those articulated here for its own operations. Further, FCE seeks to identify and do business with organisations that conduct their businesses to standards that are consistent with its own policies including working to extend these principles within their own supply chain.

FCE, as appropriate, seeks the assistance of independent third parties to assess compliance with its policies. FCE's policies are not intended to benefit any third parties or to create or confer any third party rights.

FCE expects its personnel to report known or suspected violations of its policies through the established reporting channels. FCE prohibits retaliation against anyone who in good faith reports a violation.

Section 172 Report

Section 172(1) Companies Act 2006 Statement

This section 172(1) statement is required under section 414CZA(1) of the Companies Act 2006. The financial services regulatory requirements and expectations to which FCE is subject to requires the Company to demonstrate how the Directors act in ways they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. As part of this, the Directors must have regard, amongst other matters, to the likely consequences of any decision in the long-term, the interests of FCE's employees, the need to foster FCE's business relationships with suppliers, customers and other stakeholders, the impact of FCE's operations on the community and the environment, the desirability of the company maintaining a reputation for high standards of business conduct, the need to act fairly as between members of the company and how FCE complies with the requirements of section 172 of the Companies Act 2006.

The Directors are committed to maintaining high standards of corporate governance to support the delivery of the business strategy, to maintain positive relations with all stakeholders and to create long-term value for its shareholder. FCE does not apply a single Corporate Governance Code but as required under the UK financial services regulatory regime complies with a number of different regulations relating to corporate governance matters. During the reporting year, FCE applied the Wates Corporate Governance Principles for Large Private Companies (the "Wates Principles").

During the past year, the Directors met regularly to ensure that they were fully appraised of the impact of COVID-19 on business activities and FCE's stakeholders and to ensure that they fulfilled their fiduciary duties whilst still having regard to the stakeholders. The statement on corporate governance arrangements on page 29 provides details on how the Directors have approached their responsibilities during the year and the work of the Board committees which, in turn, demonstrates how the Directors have acted in a way which is likely to promote the success of the company, as set out in section 172(1).

Board Composition, Experience and Expertise

FCE's Board comprises of four Executive Directors and six Non-Executive Directors of which four are considered independent. The Directors have been selected and appointed based on their breadth of experience and collectively have the required skills to discharge the duties as set out in section 172 as well as identify and understand the needs of its stakeholders. The appointments of all four Executive Directors and the Non-Executive Directors holding prescribed Senior Manager functions under the Senior Managers and Certification Regime ('SM & CR') have been approved by both the PRA and FCA (the "regulators") who ensure that the Directors are suitable to carry on regulated activities.

The appointment of four independent Non-Executive Directors is key to the satisfactory discharge of section 172 duties. By way of example, John Callender, who was Senior Independent Director until 30 September 2020, was formerly a member of the Financial Conduct Authority's regulatory decisions committee, Natalie Ceeney, was formerly Chief Executive and Chief Ombudsman of the Financial Ombudsman Service, John Reed and Brendan O'Connor have extensive industry experience involving close liaison with the PRA and FCA and Talita Ferreira is not only an experienced Chief Financial Officer but a thought leader who helps individuals and organisations transform culturally. Further, the remit of certain SM & CR functions is of direct relevance to section 172 duties. Accordingly, Natalie Ceeney has been appointed chair of the Remuneration Committee, the remit of this role includes the s.172(1)(b) duty to have regard to the interests of the company's employees. Also, Keith Robinson has been appointed director with responsibility for climate change, which includes not only the section172(1)(d) duty to have regard to the impact of the company's operations on the environment but also the risks of climate change to the company.

Corporate Strategy and Purpose

Section 172 duties are at the fore when the Directors deliberate and determine the corporate strategy and purpose, during decision making, during proactive stakeholder engagement and when implementing and complying with the corporate governance arrangements.

FCE's strategy is determined by the Board annually at a two-day Strategic off-site meeting held during the first quarter of the reporting year. The process considers the many aspects of FCE's business and its stakeholders consistent with the Directors section 172 duties and has regard to the immediate, mid-term and long-term risks and opportunities faced by FCE. This year, in the light of COVID-19, the Board proactively reassessed the continuing relevance of its strategic priorities throughout the year including reviewing horizon risks, business performance and conduct risks with particular regard to the interests of its retail and wholesale borrowers, its retail deposit investors, its employees and the discharge of the company's regulatory expectations.

Section 172 Report

Stakeholder Engagement

FCE recognises the need to engage with key stakeholders to help inform the Board's strategy and decision-marking. The following have been identified as FCE's key stakeholders in the context of discharging their section 172 duties, namely, retail customers, retail deposit holders and other investors, Ford dealership network, employees, suppliers, regulators, Ford, who benefits from FCE's activities to drive increased customer loyalty and the efficient distribution of vehicles, and the communities where FCE operates.

The Board keeps the interests of its stakeholders at the heart of its deliberations and decision-making alongside the need to maintain a reputation for high standards of business conduct. During the year, the Board has continued to provide oversight to the implementation of key strategic decisions that were made in the previous year as well as the implementation of the Brexit strategy across its key European locations and the enhancement of software technology to improve customer services. Examples of how stakeholders' interests have influenced decision-making as included below.

Customers and Suppliers

FCE's primary purpose is to support the distribution and sale of Ford vehicles. Therefore in developing FCE's business strategy, the Board has considered Ford's European business plan to ensure that FCE's European business footprint and operations are in alignment with the Ford business model.

As a result of the increasing expectation from retail depositors, consumers and dealers, particularly in relation to digital solutions which has been further accelerated in response to COVID-19, the Board decided during the year to accelerate the transformation of FCE into a product driven and customer-focused organisation. Consequently, the Board decided to focus the development of FCE's digital capabilities and systems on customer-focused products, such as the implementation of e-commerce, as well as to enhance FCE's customer journey and experience. The introduction of e-contracting and the new payment service enabled dealers to continue to sell vehicles, during the local and national lockdowns in the second half of the year, through a safe 'Click and Collect' or 'Click and Deliver' service. The increase in FCE's retail deposit base, including the launch of the retail deposit business in Germany, has resulted in a renewed focus on the needs and expectations of retail deposit customers.

In response to COVID-19, the Board also focused on identifying and addressing the risks and requirements of the dealer network and retail customers. The Board also ensured that high standards of business conduct were maintained across the business; adopted new policies and procedures to grant extensions to customers and dealers that were adversely impacted by COVID-19 and that FCE continued to closely collaborate with key suppliers. The Board reviews on a regular basis the areas of the business that have oversight for fostering relationships with retail and wholesale customers, dealers, retail depositors and suppliers.

Employees

FCE and the Board believe that people are critical to its business success and that it is vital to protect all employees and workers by providing a safe and healthy work environment. FCE's response to COVID-19 has required particular focus on the part of the Board through effective communication and engagement with staff throughout the year including the initiation of an employee culture sprint survey focusing on diversity and inclusion, bureaucracy and innovation. FCE has encouraged and supported employees to work from home by providing an established range of flexible working options and policies aimed at supporting families and caregivers. In response to COVID-19, FCE has put in place workplace protocols which go beyond the government guidelines, to ensure those employees who have to work in the office are safe. Further details on the increased engagement and communication with employees during the year as a result of COVID-19 can be found on page 21 as part of the Non-Financial Statement narrative.

FCE values the diversity of its employees and encourages an inclusive culture so that everyone is free to contribute and develop in a safe working environment that is free from harassment or bullying. FCE has taken specific actions to improve the gender pay gap including initiating a new advocacy and mentoring scheme with a view to increasing female representation at senior levels. The FCE's Gender Pay Gap Report is published on its website. In addition, as a consequence of the social issues that came to the fore during 2020, FCE is placing an increased focus on diversity & inclusion through a number of initiatives including recognising the shift in global understanding of diversity and inclusion, ensuring senior leaders model diversity & inclusion and recognising the connection between innovation and diversity & inclusion. FCE has also put in place frameworks that are accessible to all employees and workers including Anti-bribery and Corruption and Whistleblowing.

FCE ensures that all its employees and workers are adequately trained in relation to their roles and responsibilities and encourages everyone to request any additional training which may be required. During the past reporting period, Ford launched a new online interactive learning platform providing the workforce access to webinars, courses, tutorials and other high-quality online learning options. Further, the Board through its sub-Committees ensures that the assessment of the fitness of prospective candidates to senior management and board positions are robust and the interests of all stakeholders are taken into consideration.

Section 172 Report

Regulators

The Board recognises the importance of open and transparent dialogue with FCE's regulators. The Directors are monitored and periodically assessed by the PRA to ensure that they satisfy their obligations under the SM & CR and the PRA's supervisory review and evaluation process.

During the year, as a consequence of COVID-19, the importance of transparent and open dialogue with the regulators became even more relevant as well as ensuring that high standards of business conduct were maintained across the business as a consequence of staff working from home.

Environmental Considerations and Community

In response to the PRA supervisory statement on climate change, the Board has initiated a review of the transitional and physical risks to FCE's business arising from climate change.

FCE encourages and engages with various local community initiatives, through employee participation, in the locations where it operates including charitable and project activities.

Governance

Statement of Corporate Governance Arrangements

The following section sets out FCE's corporate governance arrangements as required under Part 8 of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and satisfies the requirements set out by Section 172 (1) of the Companies Act 2006. Further details on section 172 can be found on page 26 of the Strategic Report.

FCE does not apply a single Corporate Governance Code but is required under the UK financial services regulatory regime to comply with a number of different regulations and standards of corporate governance. FCE publishes relevant corporate governance related disclosures on its website. Further, FCE has regard to the following provisions relating to governance with no public disclosure requirements including:

1. The Rulebook of the Prudential Regulation Authority ("PRA");
2. The Handbook of the Financial Conduct Authority ("FCA");
3. The Wates Corporate Governance Principles for Large Private Companies dated December 2018 (the "Wates Principles");
4. The European Banking Authority's Guidelines on Internal Governance dated 21 March 2018 (the "EBA Governance Guidance");
5. The European Banking Authority's Guidelines on Sound Remuneration Policies dated 27 June 2016 (the "EBA Remuneration Guidance");
6. The Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting dated September 2014;
7. The Financial Reporting Council's Guidance on Audit Committees dated April 2016;
8. The Financial Reporting Council's Guidance on Board Effectiveness dated July 2018;
9. The PRA's Supervisory Statement SS5/16, Corporate governance: Board responsibilities dated July 2018; and
10. Banking Committee on Banking Supervision, Guidelines, Corporate Governance Principles for Banks - July 2015.

(the PRA and the FCA are together, the "Regulators")

The Directors consider that effective corporate governance is a key factor underlying FCE's strategies and operations. FCE lists debt securities only and therefore has fewer reporting obligations than a company with listed equity.

The Company has applied the Wates Corporate Governance principles during the financial year, as detailed on page 30 below. In practice these high level principles are embedded within, and supplemented by, FCE's existing governance practices as required by the PRA in, among other things, the General Organisational Requirements chapter of its Rulebook and by the FCA in, among other things, its handbook SYSC Senior Management Arrangements, Systems and Controls. Compliance with such matters is assured through the Company's Three Lines of Defence model as details on page 13 of the Strategic Report and by ongoing supervision by its Regulators.

Directors are satisfied that the Board meets the desired outcomes from a regulatory standpoint in that they have:

- established a sustainable business model and a consistent strategy;
- through the Risk Committee, articulated and overseen a clear and measurable risk appetite against which business options and performance are actively assessed; and
- met its regulatory obligations, has been open with the regulators and has set a culture that supports prudent management.

As part of its continuing authorisation, FCE periodically is subject to the PRA's Supervisory Review and Evaluation Process, part of which includes the examination of FCE's business model, the fitness of FCE's governance arrangements and how risks are addressed.

Governance

The Wates Principles

Principle One: Purpose *An effective board promotes the purpose of a company and ensures that its values, strategy and culture align with that purpose.* The Business Model and Strategy to deliver the Company's purpose, namely its alignment with Ford's strategy as agreed by the Board, are set out on page 4. FCE's corporate values are aligned with those of Ford (the 'Ford Truths'). A principal value is that employees act with integrity and demonstrate ethical behaviour, as set out in Employee Handbooks and related policies, approved by the Board.
Principle Two: Composition Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company. Board composition for 2020 including recent Directors appointed up to date of approval of the Financial Statements is detailed on page 31 below. The size and composition of the Board reflects the requirements of the PRA's Rulebook. Each director satisfies the fit and proper tests and individual office-holder requirements enshrined within the regulators' Senior Managers and Certification Regime. The Board is satisfied that its composition includes individuals with a mix of skills and experience that are up to date and cover the major business areas in order to make informed decisions and provide effective oversight of the risks. *The Board and its committees regularly undertake effectiveness reviews, including the training that has been received by the* Board.
Principle Three: Responsibilities A board should have a clear understanding of its accountability and terms of reference. Its policies and procedures should support effective decision-making and independent challenge. The Board annually approves a Board Charter relating to the internal corporate governance of the Company and its group. This Charter satisfies European Banking Authority Guidelines in defining the duties and accountabilities of directors and the accountability and terms of reference of each aspect of governance. Policies and procedures relating to all relevant governance and decision-making matters are approved by the Board and its committees, cascaded to employees and monitored for compliance by the FCE's Three Lines of Defence. Examples of matters considered by Board and its committees are set out on page 33 below.
Principle Four: Opportunity and risk A board should promote the long-term success of the company by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks. The Board has adopted a sustainable business model and supporting strategy in liaison with Ford. Following the annual review and development of the Business Model and Strategy, the Board engages with senior management in order to develop implementation plans. The Company has appointed a Chief Risk Officer in accordance with PRA requirements. The Board has established a risk committee, the terms of reference of which are published on its website. The Company has also established an operational risk committee. The Risk Committee considers in depth and recommends to the Board a risk appetite framework, Internal Liquidity Adequacy Assessment and Internal Capital Adequacy Assessment, with stress scenarios and action plans to mitigate any materialisation of identified risks. Risk thresholds are agreed, performance monitored against them and appropriate actions taken. The Risk Committee is attended by all Executive Directors. Its recommendations are made to the Board, all of which have been adopted.
Principle Five: Remuneration A board should promote executive remuneration structures aligned to the sustainable long-term success of a company, taking into account pay and conditions elsewhere in the company. Details regarding FCEs remuneration polices are outlined its remuneration disclosures published annually on FCE's website www.fcebank.com.
Principle Six: Stakeholders A board has a responsibility to oversee meaningful engagement with material stakeholders, including the workforce, and have regard to that discussion when taking decisions. The board has a responsibility to foster good stakeholder relationships based on the company's purpose. Full particulars of stakeholder engagement are contained in the Stakeholder Engagement Strategy and in the section 172 statement.

Governance

The Board of Directors

The Board has approved a written charter to establish systems of effective group corporate governance. This charter establishes the Board's sub-committees, their terms of reference and composition, and matters reserved to the Board. In order to maintain oversight of these delegated activities, executive directors invariably attend most of the sub-committee meetings. The chair of the Audit, Risk and Remuneration Committees provide reports of those committees' deliberations to the Board.

Members of the Board engage with the business through an open working environment and attendance at the various sub-committees of the Board and team meetings.

FCE's Board comprises ten members, namely four Executive Directors and six Non-Executive Directors (NEDs) of whom four are deemed to be independent.

The Company has a Chair, responsible for leadership of the Board and a Chief Executive Officer, responsible for the Company's management. Executive Directors are accountable for the conduct and performance of their particular business function.

The Directors and Company Secretary, who have served at any time between the beginning of the financial year and the date of this Directors report are stated on page 3 and the Directors biographies are detailed below.

Biographical Details of Directors

Thomas ('Tom') Schneider, Non-Executive Director and Board Chairman is Executive Vice President and Chief Risk Officer, Ford Motor Credit Company. His other key positions include Director, Ford Automotive Finance (China) Limited; and Director, Ford Motor Credit Company LLC. Previously, he was Executive Director, Global Operations, Technology and Risk. Tom was appointed to the Board on 27 January 2011.

Narpal Ahulwalia, Executive Vice President, Strategy and China. His other key positions include Chairman of the Board and Director, Ford Automotive Finance (China) Limited; Chairman of the Board and Manager, FCA Holdings LLC; Director, FCSH GmbH; Manager, Fairlane Credit LLC; and Supervisor, Ford Automotive Financial Leasing (Shanghai) Limited. Previously, he was Executive Vice President, Mobility, Strategy, Consumer Marketing and Asia Pacific. He has also served as Vice President, Ford Credit Asia Pacific, and Vice President, Strategic Planning and Business Operations and Controller of Ford Credit Canada. Narpal was appointed to the Board on 24 March 2019.

Charles Bilyeu, Chief Executive Officer was previously Vice President Business Centre Operations Ford Motor Credit Company. Charles was appointed to the FCE Board as Executive Director, Sales and Marketing on 1 July 2015. His other key positions include Chairman, Supervisory Board Member, Ford Bank GmbH; Director, Ford of Europe GmbH; Director, Ford Fleet Management B.V. Charles was appointed as the Chief Executive Officer on 1 January 2018.

John Callender, Senior Independent Non-Executive Director (up to 30 September 2020) and Chair of FCE's Risk Committee (up to 19 February 2020). John is also a Non-Executive Chairman of Shawbrook Bank Ltd. He was a panel member of the Financial Conduct Authority Regulatory Decisions Committee until February 2020. Previously, he was Non-Executive Chairman of ANZ Bank Europe Ltd and Non-Executive Director at Aldermore Bank plc and Motability Operations Group plc and also held a number of senior roles including Chief Executive of Barclays Mercantile as well as a number of other Non-Executive Directorships. John was appointed to the Board on 24 March 2011.

Natalie Ceeney, Independent Non-Executive Director and Chair of FCE's Remuneration Committee. Natalie is also currently a Non-Executive Director of Anglian Water Services Limited and Sports England, and chairs the Board of Innovate Finance, an independent membership association that represents the UK's global FinTech community. She also leads an independent strategy consultancy practice and is a Director of San Fairy Ann Cycling Club. Natalie who has a strategy consultancy background from McKinsey & Company has previously held senior executive roles with HM Courts & Tribunals Service, the Financial Ombudsman Service, the National Archives and HSBC UK. Natalie is a graduate of the University of Cambridge. Natalie was appointed to the Board on 17 October 2019.

John Coffey, Executive Director and Chief Risk Officer (up to 31 March 2020). John joined FCE in 1980 and held a number of positions including as Managing Director, Ford Credit Britain prior to his appointment to the FCE Board on 1 August 2002.

Talita Ferreira, Independent Non-Executive Director and Chair of FCE's Audit Committee, is the CEO and Founder of Authentic Change Solutions Limited. She is a Chartered Accountant, Chartered Director and Fellow of the Institute of Chartered Accountants for England and Wales (ICAEW) and a Fellow of the Institute of Directors. Talita's career has been in the automotive and captive financial services industries. Previously, she was the Chief Financial Officer (CFO) of BMW UK Limited, CFO of BMW Automotive Ireland Limited, CFO of BMW Financial Services Limited (UK and Ireland) and the CFO of Alphabet (GB) Limited. Talita was appointed to the Board on 8 February 2019.

Governance

Paul Kiernan, Executive Director, Finance, a Chartered Accountant since 1992 and a member of the ICAEW. His other key role is Supervisory Board Member, Ford Bank GmbH. Prior to taking up his present role on the FCE Board, Paul was Finance Director for Ford of Britain. Paul was appointed to the Board on 1 November 2011.

Brendan O'Connor, Independent Non-Executive Director. Brendan is also currently a Non-Executive Director of Coventry Building Society. Prior to taking up his role on the FCE Board, Brendan was Chief Executive Officer of AIB Group (UK) plc. Brendan was appointed to the Board on 17 September 2020.

John Reed, Independent Non-Executive Director, Senior Independent Non-Executive Director (from 1 October 2020) and Chair of FCE's Risk Committee (from 19 February 2020) is an Associate of Chartered Institute of Bankers (ACIB). John is Chairman of EFG Private Bank and Chairman of Activtrades. He is also a Director of Innovation Finance Limited and a Director of Silverback (UK) Limited. Previously, he has served on the boards of Hambros Bank, which later became a subsidiary of Société Générale when he became Group Chief Operation Officer, Arbuthnot Banking Group, Tesco Bank and Arbuthnot Latham where he was Chief Executive Officer, the Bank of the Philippine Islands (Europe) and the National Motor Museum Trust. John was appointed to the Board on 7 April 2014.

Keith Robinson, Executive Director and Chief Risk Officer, His other key roles are Director, FCLH Limited and Supervisory Board Member, Ford Bank GmbH. Prior to taking up his present role on the FCE Board, Keith has held other senior roles within the group. Keith was appointed to the Board on 1 April 2020.

Carlos Treadway, Executive Director, Sales and Marketing, Ford Credit Europe. Prior to taking up his present appointment on the FCE Board, Carlos was Vice President, Business Center Operations, North America. He is also Director, Demons Unlimited Foundation, an Athletic Foundation at his Alumni University. Carlos was appointed to the Board on 14 January 2021.

All 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.

FCE's Articles of Association require that all Directors retire and stand for reappointment at each Annual General Meeting (AGM). Appointments are terminable on one month's notice by either party.

Non-Executive Directors (NEDs)

The appointment of an independent NED is for an initial term of up to three years, renewable for a second term of up to three years on mutual agreement. In certain circumstances further terms may be agreed.

The Board considers four of the six current NEDs to be independent because they have no material business relationship with FCE, (either directly or as a partner, shareholder or officer of an organisation that has a relationship with FCE), and they neither represent the shareholders nor have any involvement in the day-to-day management of FCE 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 FCE through their membership of the Audit, Risk and Remuneration Committees to which they are each appointed. Each year the NEDs hold a meeting with the Chair 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.

A Senior Independent Director ('SID') has been appointed to provide a sounding board for the Chair and to serve as an intermediary for the other Directors when necessary. The role of the SID is to take a lead role with the other NEDs, representing collective views to the Chair, Board and to representatives of FCE's shareholders. John Reed was appointed to the role of SID on 1 October 2020.

The NEDs meet from time to time in the absence of FCE's management and the SID 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 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 the SID and the other NEDs.

Executive Directors are identified through Ford Credit's Personnel Development Committee process, having been approved pursuant to the Senior Managers and Certification Regime. Succession plans for FCE Directors and other FCE senior appointments are reviewed with senior representatives of FCE's parent and the NEDs. Proposals for all Director appointments are then submitted for corporate approval both by Senior Management of the shareholders and by the Ford Corporate Governance Committee before being submitted to the Company's Board of Directors for approval.

FCE recognises the value and competitive advantages of having a diverse Board and management team that make optimal use of different skills, experiences, perspectives, background, ethnicity, age, gender and other attributes. FCE's policies on equality of opportunity, diversity and inclusion ensure that these matters are considered fully when considering the composition of its Board and management team.

FCE has a strategic vision to achieve appropriate diversity representation across its management groups, including the Board. In selecting suitable candidates for executive and non-executive roles, whether from inside the broader Ford Group or externally, candidates are sought from as diverse pool as possible. They are assessed on merit against objective criteria by the transparent application of fair policies and processes, which are free from any unfair barriers.

Matters Reserved to and considered by the Board

During 2020, the Board held a total of fourteen meetings comprising of six regular board meetings and eight ad hoc meetings to consider matters including the approval of the appointment of the Risk Committee Chair and receiving business updates on COVID-19 related issues. The Board also held a strategic off-site meeting and a two-day conference with senior management at which the strategy was reviewed, taking into consideration the external economic environment, Ford Motor Company's strategy, and the Company's need to create shareholder value.

During the reporting period, the Board reviewed the Company's Risk Appetite Framework, evaluating all risks affecting the business and the processes put in place to address them. It also reviewed the Company's strategy, business, funding and liquidity plans and the inputs required to support the ICAAP, ILAAP and RRP (Recovery and Resolution Plan). It reviewed the annual operating budget, dividend policy and statutory accounts. The Board also reviewed the financial performance and operation of each of FCE's businesses, including its performance in treating customers fairly together with other business reports and presentations from senior management.

Topics considered by the Board included:

- The delivery of the Brexit implementation strategy including the impact on the corporate structure, resource requirements, associated risks and opportunities
- The impact of COVID-19 on business operations
- Cyber and data security
- Operational resilience
- Internal audit resources
- HR culture framework and the Gender Pay Gap Report
- Health and safety
- FCE's European market growth strategy
- Board effectiveness
- Model risk governance
- Group corporate governance, and
- The current and future environmental considerations impacting the business.

Committees of the Board

The Board has constituted five direct sub-committees, these are the Audit, Risk, Remuneration, Executive and Administration committees. The Board periodically reviews their composition to ensure an appropriate balance and good mix of skills and experience. It also periodically reviews the committees' activities and terms of reference, which contain their delegated authorities and risk responsibilities.

Governance

The Terms of Reference for the Audit, Risk and Remuneration Committees can be found on FCE's website.

The report of the work of the Audit Committee can be found on pages 37 and 38.

Details of the functions and work of the Risk Committee can be found on page 13 of the Strategic Report.

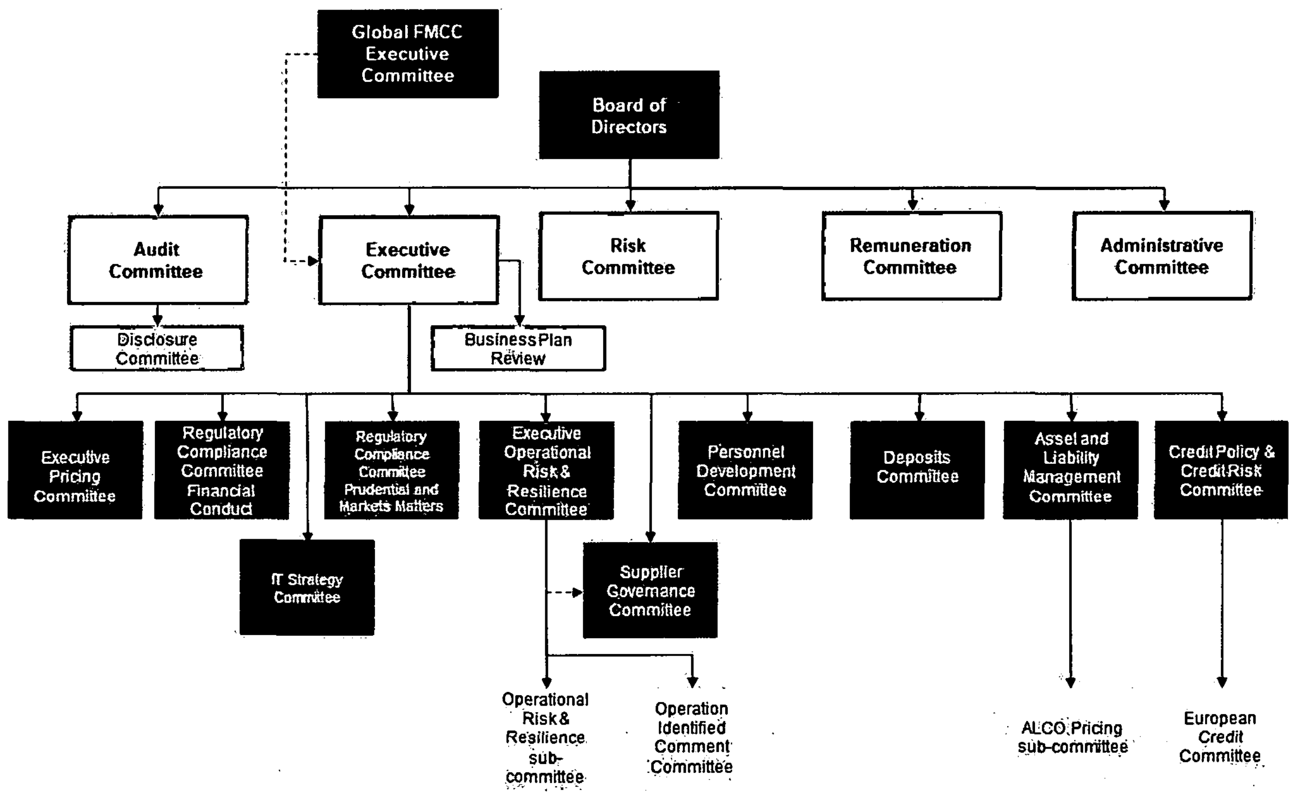
During the reporting period, the Remuneration Committee (RemCo) met six times. In the first quarter, the RemCo reviewed compensation awards made to the bank's Material Risk Takers to ensure alignment of pay and performance within the company's prescribed risk appetite framework, ensuring alignment with Proportionality Level Two pay-out requirements. The RemCo reviewed succession plans for all senior roles. The committee reviewed their skills and experience in order to determine areas of expertise and opportunities for development. The RemCo reviewed and approved FCE's unaudited 'Pillar 3 Disclosures' regarding remuneration, which are published on its website. The Gender Pay Gap Report was approved by the RemCo, and then the Board, and published in January 2021.

The Executive Committee (EC), chaired by FCE's CEO, provides direction, monitors performance and ensures FCE has the capabilities, resources and effective controls to deliver its Business Plan. The EC has 13 members, four of whom are Executive Directors. The EC consists of individuals responsible for Deposits, Marketing, Sales and Brand, Information Technology, Legal and Compliance, Strategy, Finance, Operations, Human Resources and Risk Management. The EC held 12 meetings during 2020.

The Administrative Committee comprises any two Executive Directors and meets when required. It considers and approves operational matters delegated to it and the execution of contracts not otherwise the subject of general management delegated authorities.

The full sub-committee structure is set out below.

Appendix 1 - FCE Governance Structure



Governance

2020 Membership and Attendance

	Board	Audit Committee	Remuneration Committee	Risk Committee	Number of Directorships
Meetings held	**13**	**7**	**6**	**5**	
Attendance					
N K Ahluwalia	10/13				6
C A Bilyeu	12/13				4
J D Callender	10/12	4/5	2/2	4/4	2
N A Ceeney	13/13	7/7	6/6	5/5	9
J Coffey	7/8				1
T Ferreira	13/13	7/7	6/6	5/5	2
P R Kiernan	13/13				2
B O'Connor	5/5	3/3	1/1	2/2	2
J Reed	12/13	7/7	6/6	5/5	5
K Robinson	10/13				3
T C Schneider	12/13			5/5	3

Other Governance

Risk Management and Internal Control

The Board ensures that FCE's systems of effective corporate governance are supported by effective internal controls that apply to both its strategies and operations.

Details of FCE's Three Lines of Defence model can be found on page 13 of the Strategic Report.

Financial Reporting

FCE has developed strong and defined internal controls, including controls over financial reporting.

The financial statements were prepared and reviewed by the entire executive team and subject matter experts within the business, prior to submission to the Audit Committee. The Audit Committee has considered the content, accuracy and tone of the disclosures in the Annual Report. The Board has reviewed and approved the Annual Report following the review by the Audit Committee. This governance process has ensured that both management and the Board were given enough opportunity to review and challenge the financial statements and other significant disclosures before they are made public.

The process is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and FCE's Group financial statements in accordance with IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Ford's Internal General Auditor's Office (GAO)

Ford's GAO is 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 Audit Committee reviews the GAO's audit plan and resources for appropriateness.

The GAO's mission, as the third line of defence, is to provide objective assurance and advisory services to management, in order to improve the efficiency and effectiveness of FCE operations and assist the Company in achieving its objectives through systemic and disciplined auditing.

Governance

External Audit

PwC conducts audits of FCE's Group and Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and FCE's Group financial statements in accordance with IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, ensuring the financial statements are prepared in accordance with law and IFRS.

The Audit Committee reviews PwC's continued independence, performance, significant relationships and compliance with relevant ethical and professional guidance. The Audit Committee makes a recommendation to FCE's Directors on the appointment of the auditor who then propose the appointment to shareholders who appoint the auditors at the Annual General Meeting. In addition, the Audit Committee reviews PwC's audit plan, its scope and cost effectiveness and the audit fee. PwC's audit fees for 2020 are outlined in Note 5 'Operating Expenses'.

Independence

To help ensure that the auditors' independence and objectivity are not prejudiced by the provision of non-audit services, the Audit Committee has implemented procedures to ensure that:

- Non-audit work suggested to be performed by PwC is approved upfront to ensure only permissible non-audit services are performed
- All non-audit work by PwC is pre-approved by the Audit Committee unless the amount involved is minimal
- The remuneration for the non-audit work performed by PwC does not exceed the 70% threshold of the audit fees billed over the last 3 years

Additionally, it has been agreed that the external auditors should generally be excluded from providing permitted advisory 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
- 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 formalities related to borrowings or work in respect to regulatory reports. The appropriateness of proposed engagements are reviewed by the Audit Committee in the light of relevant Ethical Standards, Securities and Exchange Commission requirements and the considerations highlighted on pages 37 and 38.

Statutory auditor rotation

The Audit Committee conducted a tender process to replace PwC as the statutory auditor in line with the Statutory Auditors and Third Country Auditors Regulations 2016. BDO LLP will be appointed as FCE's external auditor for the year ending 31 December 2021, subject to member approval at the April 2021 Annual General Meeting. PwC did not participate in the tender process because they had reached the maximum tenure permitted for auditors of public interest entities.

BDO LLP started the transition work with PwC and FCE's management from May 2020 onwards to ensure an orderly and seamless transition of the statutory audit.

Audit Committee Report

Composition, skills and experience

Under the chairmanship of Talita Ferreira, the other members of the Audit Committee ("the Committee") during the year were John Callender (until 17 September 2020), John Reed, Natalie Ceeney, and Brendan O'Connor (from 17 September 2020). All members of the Committee are independent Non-Executive Directors.

The qualifications and experience of the members of the Committee are set out on pages 31 and 32. The Company is satisfied that the Committee members have recent and relevant experience in finance and banking, being the sector in which the Company operates. The Company is satisfied that Ms Ferreira has the necessary competence in accounting and auditing.

The Chief Executive Officer, Finance Director, Chief Risk Officer, Company Secretary, Legal Affairs Director, Head of Internal Control and Head of Internal Audit attend Committee meetings along with the external auditors who are invited to attend and report at all meetings. The Committee also meets periodically with the internal and external auditors, without management being present. The Committee met seven times during the year and the attendance list can be found on page 35.

Terms of Reference

The terms of reference of the Committee, which are updated annually, can be found on the Company's website.

The responsibilities of the Committee include:

- Monitoring the financial reporting process and submit recommendations or proposals to ensure its integrity;
- Monitoring the effectiveness of the Company's internal quality control, risk management systems, and, where applicable the internal audit function;
- Reviewing the arrangements and processes for developing the Recovery and Resolution Planning;
- Monitoring the performance of the statutory audit of the annual and consolidated financial statements;
- Reviewing and monitoring the independence of the statutory auditor, and in particular the appropriateness of the provision of non-audit services;
- Informing the Board of the outcome of the statutory audit and explaining how the statutory audit contributed to the integrity of financial reporting and what the role of the Audit Committee was in that process;
- Overseeing the selection process of the statutory auditor and making a recommendation to the Board in respect to the appointment of the statutory auditor.
- *Reviewing the accuracy and quality of regulatory reporting including the implementation of new regulatory requirements,* as applicable.

The Audit Committee's Work

In fulfilling its role, the Committee has:

- Kept under review the effectiveness of FCE's governance, risk and control frameworks, including the receipt of periodic reports on the integrity of financial reporting, the reliability of regulatory reporting, progress against internal audit plans and management's approach to self-identifying, managing and closing operational audit comments as well as the identification of any thematic trends and how the root causes have been addressed;
- Reviewed and approved the Internal Audit annual work plan and ratified the plan and resources for Ford Bank GmbH. The annual work plan focused on key risks and key internal controls. The Committee also reviewed the audit universe process and the approach used to develop the risk-based audit plan to satisfy itself that the framework was robust and that appropriate key risks were being monitored. The Committee also reviewed internal audit resources allocation required to meet the audit plan including the outsourcing of a portion of the internal audit work to a third party;
- Reviewed the content of the Annual Report and Accounts including the effectiveness of governance and quality assurance, management representations, going concern statements and the unaudited 'Pillar 3 Disclosures' in the context of the impact of COVID-19, the implementation of the Brexit strategy and the uncertain economic outlook;
- Reviewed the fact that the information presented in the Annual Report, when taken as a whole, is fair, balanced and understandable and contains the information necessary to assess FCE's performance, business model and strategy;
- Reviewed and approved the annual external audit plan ensuring it focused on significant audit risks, monitored the Company's response to audit findings and approved the audit fees;
- Reviewed the Recovery and Resolution plan;
- Reviewed the external auditor's performance including the audit and non-audit services provided by them during the year and considered the policy for non-audit services to ensure that auditor objectivity and independence was safeguarded. The Committee reviewed each area of non-audit work performed and considered the relevant safeguards the auditors had put in place to address any potential threat to independence

Audit Committee Report

The Audit Committee's Work continued

- *Received status update and monitored the implementation of the project to automate regulatory reporting;*
- Reviewed FCE's going concern paper and challenged the ability of the Group to withstand severe but plausible downside scenarios
- As part of the process to comply with the mandatory audit rotation requirements, the Committee invited BDO LLP, who will be appointed as the new auditor from 2021 business year onwards, to attend the Committee meetings as a guest during the reporting period. In parallel, the new auditor started the transition work with the incumbent audit firm and FCE's management from May 2020 onwards;
- Scrutinised how the Company is responding to and is complying with significant accounting, regulatory and legal developments affecting it, including, amongst others
    - the governance requirements relating to and the financial impacts of IFRS 9, in the context of COVID-19, in relation to which quarterly reviews were undertaken;
    - Brexit implementation; and
    - an investigation by the competition authority in Italy.
- Considered how these matters have been reflected in the Annual Report, including both the accounting adopted and the disclosures made
- Reviewed the Company's tax strategy and relevant policy statements
- Continued to review its effectiveness as part of a wider board effectiveness review
- Reviewed the Dividend Payment, Provisioning, Pillar 3 and Internal Management and Public Disclosure of Inside Information Policy Statements
- Reviewed internal audit reports, including those in relation to:
    (a) Quality Assurance and Improvement Programme
    (b) Internal Audit Service
    (c) Financial Crime
    (d) Collections
    (e) Senior Managers & Certification Regime
    (f) Human Resources
    (g) Wholesale and MDR Dealer Credit
    (h) IT Information Security & Information Risk and Information Technology
- Engaged in the Company's values role modelling exercise following the strategic review in February 2020 and set certain commitments. Adherence to these commitments is assessed at each committee meeting
- Reviewed the impact of COVID-19 and the business transformation project on FCE's culture and control environment

ON BEHALF OF THE AUDIT COMMITTEE
Talita Ferreira
18 March 2021

Directors' Report

The Directors present their Annual Report, together with the Company and Group Financial Statements and Independent Auditors' Report, for the year ended 31 December 2020.

The Business Review and future developments are set out in the Strategic Report on page 4 to 20.

The Group's risk management disclosures are set out in the Strategic Report on pages 12 to 20. FCE's Directors are satisfied that the Enterprise Risk Management Framework adequately supports the bank's profile and risk strategies in a way that meets the requirements of all key stakeholders.

The Group's policies for hedging each major type of transaction are discussed in Note 31 'Market Risk' to the financial statements.

Events occurring after the reporting date are discussed in Note 38 'Events After The Reporting Period' to the financial statements.

Details of Branches outside the UK are disclosed on page 134.

The Directors consider that the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and company's position and performance, business model and strategy.

Particulars of the present Directors and Company Secretary, who have served throughout the year and up to the date of signing the financial statements are contained on pages 31 and 32. The content of the Non-Financial Statement on pages 21 to 25 are incorporated by reference into this report. Dividend payments and payment policy are referred to on page 10. Information concerning corporate governance arrangements is disclosed on pages 29 to 36.

All Directors have been issued a Qualifying Third-Party Indemnity. All Qualifying Third-Party Indemnities were in force at the date of approval of the financial statements.

Going concern

Directors are required to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the 'Group and parent company' will continue in business. The Directors have made an assessment of going concern, taking into account both current performance and the Group's outlook, including consideration of COVID-19, projections for the Group's capital and funding position. As a result of this assessment, the Directors consider that it is appropriate to adopt the going concern basis of accounting in preparing the Company and Consolidated Financial Statements.

Disclosure of Relevant Audit Information

So far as each Director is aware at the date of approving this report, there is no relevant audit information, being information needed by the auditor in connection with preparing this report, of which the auditor is unaware. All of the Directors have taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of such information.

Directors Responsibility Statement

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 international accounting standards in conformity with the requirements of the Companies Act 2006. Additionally, the FCA's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group's financial statements in accordance with IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (the "applicable framework"), and have been prepared in accordance with the provisions of the Companies Act 2006 (the "applicable legal requirements"). IFRS has been followed for the Group and Company financial statements, subject to any material departures disclosed and explained in the financial statements.

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.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company and Group's transactions and 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 above requirements. 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.

Directors' Report

In preparing the Company and Group's financial statements for the year ended 31 December 2020, the Directors also are required to select suitable accounting policies and apply them consistently, make judgements 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.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. Each of the Directors confirms that, to the best of their knowledge:

- The financial statements, which have been prepared in accordance with applicable accounting framework as above, give a true and fair view of the assets, liabilities, financial position and profit of the Group
- 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

The Directors are responsible for the maintenance and integrity of the parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that they have complied with the above requirements in preparing the financial statements for the year ended 31 December 2020.

Charles Bilyeu

Approved by the Board of Directors and signed on behalf of the Board

Charles Bilyeu - Chief Executive Officer

18 March 2021

Independent Auditors' Report to the Members of FCE Bank plc

Opinion

In our opinion, FCE Bank plc's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2020 and of the group's profit and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Group and Company statements of financial position as at 31 December 2020; the consolidated statement of profit or loss and other comprehensive income, the Group and Company statements of cash flows, and the Group and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

As explained in Note 1 to the financial statements, the Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

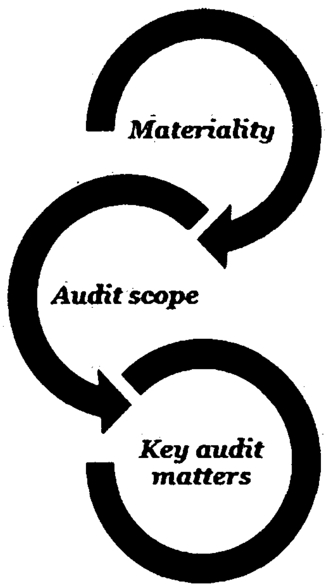
To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group.

Other than those disclosed in Note 5 to the financial statements, we have provided no non-audit services to the Group in the period under audit.

Independent Auditors' Report to the Members of FCE Bank plc

Our audit approach

Overview



- Overall Group materiality: £14.4m (2019: £14.8m) based on 5% of the three year average profit before tax for the financial years ended 31 December 2017 to 2019.
- Overall Company materiality: £14.4m (2019: £14.8m) based on 5% of the three year average profit before tax for the financial years ended 31 December 2017 to 2019, but limited to the overall Group materiality.
- Performance materiality: £10.8m (Group and Company).

- The Group operates in 12 countries through a subsidiary and branch network.
- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error).
- The German and UK businesses were categorised as financially significant components. Certain material balances in other markets, including Italy, Spain and France were also scoped-in in order to achieve adequate coverage.
- Work was performed centrally at the Group's shared business centre, and over process and operational support received from other Ford Group entities, including in relation to Treasury activity, IT infrastructure, and operational processes.

Key audit matters:

- Recognition of interest income for loans and advances (Group and Company).
- Provisions for credit loss for retail loans and finance leases (Group and Company).
- Impact of COVID-19 (Group and Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the Prudential Regulatory Authority and Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Enquiries of management, including with Internal Audit and Compliance, in relation to known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect fraud and errors in financial reporting. This included considering the impact of COVID 19 on the firm's control environment and assessing the impact on the audit approach;
- Observing the effectiveness of key governance forums and reviewing management information presented at these meetings;

Independent Auditors' Report to the Members of FCE Bank plc

- Reading key correspondence with regulatory authorities;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the impairment of loans and advances;
- Identifying and testing journal entries, in particular journal entries posted by senior management, journals posted with descriptions indicating a higher level of risk and post close journal entries; and
- Discussing the facts and judgements in relation to the Italian Competition Authority matter described in Note 28, including obtaining legal confirmation from the Company's legal advisers.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit. The Impact of COVID-19 on the audit is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	***How our audit addressed the key audit matter***
Recognition of interest income for loans and advances (Group and Company)	
We focused on this area as it is the primary source of income for the Group and Company. Interest income is recognised using the effective interest rate method which spreads directly attributable cash flows, including transaction costs over the lives of loans, and on a similar basis for finance leases in order to represent a constant periodic rate of return on the net investment in the lease. Interest income includes amounts charged to external retail customers and wholesale dealers, as well as interest supplements earned from related parties. We focused our testing on management judgements applied, manual adjustments recorded and the accuracy of the data used in the calculation of interest income. We considered that the significant audit risk related to the judgements applied and manual adjustments made to interest supplements given these are transactions with related parties. Further details are provided in Note 2, Net Interest Income and Note 34, Related Party Transactions.	We evaluated the design and tested the operating effectiveness of controls over the calculation of interest income on loans and advances. These include controls over data entry of interest rates, the review and approval of manual adjustments, the review and approval of pricing terms and the automated calculation of interest income for retail, wholesale and interest supplements. We determined that we could rely on these controls for the purposes of our audit. Our substantive testing included: • We performed sample testing on interest rates recorded in the system for retail and finance lease and agreed the rates to underlying contract details or other supporting information; • We selected a sample of wholesale customers and recalculated the interest recorded in the system based on the lending terms; • For a sample of interest supplements earned, we tested manual adjustments made and recalculated the total income to be recognised; • Verified a sample of interest supplements amounts billed to and paid by the related party. • We tested whether the interest income recognition profile was in line with IFRS 9 / IFRS 16. In this testing we considered the impact of payment holidays and concessions provided to both retail and wholesale customers due to COVID-19.

Independent Auditors' Report to the Members of FCE Bank plc

Key audit matter	*How our audit addressed the key audit matter*
Recognition of interest income for loans and advances (Group and Company) continued	
	• We used data auditing techniques to test interest income charged for a sample of major markets covering retail and finance lease customers, wholesale customers and interest supplements earned from related parties. We extracted relevant data-sets, tested the integrity of the data obtained by agreeing to source contract/reports and then performed an independent recalculation of the interest recorded. Our recalculation at the customer level covered over 55% of the interest revenue of the Group and Company. The difference between our recalculation and the interest recorded in the system was not material. No material exceptions were identified from the above testing. We also performed testing on manual and automated journals included in relation to interest income, and tested a sample of journals with higher risk characteristics. No items were identified that were indicative of management override of controls in relation to interest income.
Provisions for Credit Loss for Retail Loans and Finance Leases (Group and Company)	
Impairment provisions are a key judgement for the Group and Company, representing management's best estimate of the expected credit losses in the underlying loan portfolios. Determination of the appropriate provisions required under IFRS 9 involves complex calculations and judgements including: • The modelling methodology adopted, including how to calculate the probability of default, exposure at default and loss given default. • The definition of what constitutes a significant increase in credit risk. • The incorporation of forward looking information and the weighting to apply to different scenarios. Management also apply judgemental adjustments where they believe the model calculated assumptions and allowances are not appropriate. For example, as historical data used in the development of the models does not fully capture conditions arising from COVID-19 adjustments have been made to the reserve calculated by the model. We focused our significant audit risk on testing the completeness and accuracy of the underlying data used for retail impairment provisioning purposes and assessing the completeness of the retail post model adjustments recorded. Further details are provided in Note 13, Allowance for Expected Credit Losses and Note 29, Credit Risk.	We assessed the base methodology applied for compliance with IFRS 9.We also assessed the methodology used for calculating the post model adjustments to take account of COVID-19. While there are certain simplifications in the modelling used, the impact of these was not material, and we considered the overall approach adopted reasonable. We understood and evaluated the design of key controls over the impairment process and in certain instances tested their operating effectiveness. Controls operated by management include: • Review checks to ensure completeness and accuracy over the automated feed of loan data from the source systems to impairment model; • Validating the output of the impairment model by running a separate challenger model; • Review and approval of key assumptions including macroeconomic factors; • Review and approval of post model adjustments; • Segregation of duties controls, for example over the flagging of forborne customers; • Periodic review of movements in the impairment provision, and • Periodic review and monitoring of models including underlying components to check the appropriateness of assumptions. For those controls that we tested for operating effectiveness we determined that we could place reliance on these controls for the purposes of our audit.

Independent Auditors' Report to the Members of FCE Bank plc

Key audit matter	*How our audit addressed the key audit matter*
Provisions for Credit Loss for Retail Loans and Finance Leases (Group and Company) continued	
	In addition, we performed substantive procedures including those described below: • Utilised modelling specialists to review the model build methodology; • Sample testing of data attributes used in the impairment models and expected credit loss calculation, including historic defaults and key macroeconomic variables; • Sample testing of delinquency status; • Tested coding used within the challenger model (including conceptual review and assessment of changes made over time) and model monitoring; • Reconciliation of model and expected credit loss calculation output through to the general ledger; • Re-performed the calculation of the expected credit loss provision on a sample basis, using FCE's challenger model; • Re-performed key model monitoring tests to assess for accuracy; • Tested the calculation of the post model adjustments relating to COVID-19; • Used data auditing to validate the number of COVID-related customer concessions provided, and • Tested flagging of customers provided Covid 19 concessions (e.g., payment holidays) In addition, we assessed the overall expected credit loss provision at 31 December 2020 and considered: • The consistency with historic losses and the losses experienced during the year due to COVID-19 pandemic; • The results of sensitivity analysis, and • The consistency with other testing performed Based on our testing we considered the expected credit loss provision and related income statements charge reasonable.
Impact of COVID-19 (Group and Company)	
The global COVID-19 pandemic, and the associated societal restrictions imposed by governments have adversely affected populations and economies in the locations the Group operates in. The majority of the Group's employees have been working remotely since March 2020, while other COVID-19 impacts on the Group include reduced new sales originations and government mandated payment deferrals. Further details are included within the Strategic Report. As at 31 December 2020, vaccines had received regulatory approval and had begun to be administered in some countries. However, there remains significant uncertainty over the successful rollout and efficacy of the vaccines, the future mutation and spread of the virus, the extent and impact of government measures and economic outlook. Management has considered the impact of COVID-19 when preparing the financial statements and, where relevant to a key audit matter or other area of this audit report, we have included our considerations therein.	Our planning and execution of our audit has given specific consideration to the impact of COVID-19 on the Group. In assessing management's consideration of the impact of COVID-19 on the financial statements, we have undertaken the following procedures: • In areas where management is required to estimate future financial performance of the Group when preparing the financial statements, we considered the appropriateness of the forecasts and the extent to which they have been impacted by COVID-19. In particular, we considered the impact on expected credit losses as detailed above; • Performed inquiries with senior management and attended the governance forums including attending the Risk Committee meeting subsequent to the year end; • Reviewed key correspondence with regulatory authorities;

Independent Auditors' Report to the Members of FCE Bank plc

Key audit matter	*How our audit addressed the key audit matter*
Impact of COVID-19 (Group and Company) continued	
	• Reviewed management's going concern assessment, which considered the potential impact of COVID-19 on future profitability and liquidity; • Considered the impact of COVID-19 on the Group's internal control environment through our audit testing and inquiries of management; • Evaluated the adequacy of the disclosures made in the financial statements with respect to the impact of COVID-19. We were not able to visit any of the audit teams for the significant components and other operational centres and European locations during our 2020 audit. However, we engaged with and directed these teams in a manner consistent with our previous audits using video conferencing and telephone calls. As a result of these procedures, we concluded that the impact of COVID-19 has been appropriately evaluated and reflected in the preparation of the financial statements.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group operates in 12 European countries through a subsidiary and branch network. The Group's most financially significant markets are the UK and Germany, and these were considered full scope components for our audit. Other large markets include Spain, Italy and France and while not individually significant components, we performed testing on these balances to the extent necessary to obtain sufficient coverage over each financial statement line item. In determining the work to be performed, we considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error).

The Group operates its own shared business centre in Manchester, UK, and obtains operational, process and infrastructure support from related party (other Ford Group) operations in the US, Spain, Germany and India. In connection with our scoping process we identified audit work to be performed over selected business processes performed by the Ford Group on behalf of FCE. We determined whether procedures would be performed centrally by the Group team, or by other PwC network firms operating under our instruction, based on the physical location of business processes within the Ford Group. These instructions included the required nature, timing and extent of the procedures to be performed, materiality levels and compliance with ethical standards and independence regulations. Our involvement with component teams included regular virtual meetings with teams in Germany, India and the US and virtual reviews of selected audit working papers, ensuring that the audit work performed was adequate for our purposes. We also evaluated and confirmed the competence of each instructed office, including the professional experience and qualifications of key team members. This approach gave us a different level of coverage over each financial statement line item, but typically above 80% of the specific in-scope financial statement line items. The risk of material misstatement in the remaining balances and components not in scope was mitigated through audit procedures including testing of entity level controls, Group, Company and component level analytical review procedures, and testing of common controls deployed throughout the business, including information technology general controls.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - Group	*Financial statements - Company*
Overall materiality	£14.4m (2019: £14.8m)	£14.4m (2019: £14.8m)
How we determined it	5% of the three year average profit before tax for the financial years ended 31 December 2017, 2018 and 2019.	5% of the three year average profit before tax for the financial years ended 31 December 2017, 2018 and 2019, but limited to the overall Group materiality.
Rationale for benchmark applied	Due to the impact of COVID-19 on the Group's current year profit, we used an alternative benchmark by taking the average of the last three years' profit before tax. This results in a materiality level we considered consistent with the size of the Group's operations and financial statements.	The calculated materiality based on the average profit before tax for the last three years for the Company was higher than the overall Group materiality and therefore we restricted materiality to the Group level.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £10.1m to 13.6m.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £10.8m for the Group and Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.7m (Group and Company audit) (2019: £0.7m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Performing a risk assessment to identify factors that could impact the going concern basis of accounting including the impact of COVID-19.
- Understanding management's forecasts and stresses with a focus on liquidity risk, and assessing their reasonableness based on historic performance and our testing of key funding agreements.
- Evaluation of funding sources available to the Group, including the continued planned growth in retail deposits.
- Reading the latest ICAAP and ILAAP and evaluating the consistency with the going concern assessment performed by management.
- Assessing the financial performance of FMCC and its ability to continue to provide intercompany funding and to stand behind the Support agreement described in Note 25.
- Met with the Group's lead regulator, the PRA, and understood their view of the Group and its going concern risk.
- Reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

Independent Auditors' Report to the Members of FCE Bank plc

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors Responsibility Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditors' Report to the Members of FCE Bank plc

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- 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
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors to audit the financial statements for the year ended 31 December 1973 and subsequent financial periods. The period of total uninterrupted engagement is 48 years, covering the years ended 31 December 1973 to 31 December 2020.

L. C. Hanson

Luke Hanson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 March 2021

Consolidated Statement of Profit or Loss and other Comprehensive Income

		Group	
For the year ended 31 December		**2020**	**2019**
	Note	**£ mil**	**£ mil**
Interest income		679	748
Interest expense		(217)	(208)
NET INTEREST INCOME	2	**462**	**540**
Fees and commissions income		61	63
Fees and commissions expense		(11)	(10)
NET FEES AND COMMISSIONS INCOME	3	**50**	**53**
Other operating income	4	224	426
TOTAL INCOME		**736**	**1,019**
Allowance for expected credit losses	13	(49)	(22)
Operating expenses	5	(275)	(276)
Depreciation of property and equipment	15	(190)	(400)
Depreciation of right-of-use assets	16	(6)	(5)
Gain/(Loss) on fair value adjustment - non designated derivatives	10	(3)	(65)
Gain/(Loss) on foreign exchange	7	(29)	46
PROFIT BEFORE TAX		**184**	**297**
Income tax expense	8	(56)	(73)
PROFIT AFTER TAX AND PROFIT FOR THE PERIOD		**128**	**224**
Translation differences on foreign currency net investments		94	(89)
ITEMS THAT CAN BE RECYCLED THROUGH PROFIT OR LOSS		**94**	**(89)**
Equity investments at FVOCI	20	-	(3)
ITEMS THAT CANNOT BE RECYCLED THROUGH PROFIT OR LOSS		**-**	**(3)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**222**	**132**

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

Statements of Financial Position

As at 31 December	Note	Company 2020 £ mil	Company 2019 £ mil	Group 2020 £ mil	Group 2019 £ mil
ASSETS					
Cash and cash equivalents	9	1,143	741	2,048	1,453
Derivative financial instruments	10	90	140	93	147
Other assets	11	3,321	2,958	1,148	625
Loans and advances to customers	12	10,636	12,554	15,804	17,866
Property and equipment	15	4	3	316	305
Right-of-use assets	16	20	28	26	35
Intangible assets	17	33	26	33	26
Income taxes receivable	18	7	11	7	11
Deferred tax assets	19	57	58	59	71
Investment in other entities	20	842	840	-	-
TOTAL ASSETS		**16,153**	**17,359**	**19,534**	**20,539**
LIABILITIES					
Financial liabilities	21	9,386	12,312	12,466	15,315
Lease liabilities	16	21	29	27	36
Deposits	23	3,609	1,970	3,609	1,970
Derivative financial instruments	10	34	33	43	42
Other liabilities and provisions	24	188	206	334	335
Income taxes payable	18	14	31	28	37
Deferred tax liabilities	19	12	17	24	25
TOTAL LIABILITIES		**13,264**	**14,598**	**16,531**	**17,760**
SHAREHOLDERS' EQUITY					
Ordinary shares	25	614	614	614	614
Share premium	25	352	352	352	352
Retained earnings		1,923	1,795	2,037	1,813
TOTAL SHAREHOLDERS' EQUITY		**2,889**	**2,761**	**3,003**	**2,779**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**16,153**	**17,359**	**19,534**	**20,539**

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

The financial statements on pages 50 to 133 were approved by the Board of Directors on 18 March 2021 and were signed on its behalf by:

Charles Bilyeu

Charles Bilyeu
Chief Executive Officer

Mar-18-2021

Paul Kiernan
Executive Director, Finance

Mar-18-2021

Statements of Cash Flows

For the year ended 31 December	Note	Company 2020 £ mil	Company 2019 £ mil	Group 2020 £ mil	Group 2019 £ mil
Cash flows from operating activities					
Cash from operating activities	36	2,315	642	2,252	(773)
Interest paid		(194)	(208)	(217)	(221)
Interest received		357	611	468	830
Other operating income received		5	17	238	490
Income taxes paid		(48)	(135)	(50)	(133)
Net cash generated (used in)/from operating activities		**2,435**	**927**	**2,691**	**193**
Cash flows from investing activities					
Purchase of property and equipment		(1)	(32)	(1)	(41)
Proceeds from sale of property and equipment		1	-	1	-
Investment in internally and externally generated software		(11)	(10)	(11)	(10)
Investment in other entities		(2)	(96)	-	-
Net cash generated (used in)/from investing activities		**(13)**	**(138)**	**(11)**	**(51)**
Cash flows from financing activities					
Proceeds from the issue of debt securities and from loans provided by banks and other financial institutions		103	1,135	3,505	5,318
Repayments of debt securities and of loans provided by banks and other financial institutions		(3,872)	(3,279)	(7,357)	(7,126)
Proceeds of funds provided by parent and related undertakings		2,025	687	1,330	2,416
Repayment of funds provided by parent and related undertakings		(1,528)	(229)	(833)	(1,735)
Net decrease in short-term borrowings		(118)	(182)	(102)	(223)
Net increase in deposits		1,637	772	1,637	772
Net cash inflow on derivative financial instruments		63	67	58	63
Increase in restricted cash		(356)	(92)	(410)	(119)
Decrease in restricted cash		22	99	47	120
Net cash generated (used in)/from financing activities		**(2,024)**	**(1,022)**	**(2,125)**	**(514)**
Net (decrease)/increase in cash and cash equivalents	36	**398**	**(233)**	**555**	**(372)**
Cash and cash equivalents at beginning of year	36	741	1,002	1,453	1,879
Effect of exchange rate changes on cash and cash equivalents		4	(28)	40	(54)
Cash and cash equivalents at end of year	36	**1,143**	**741**	**2,048**	**1,453**

Statements of Changes in Equity

Company	Share capital	Share premium	Profit or loss reserve	Translation reserve	Total retained earnings	Total
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
Balance at 1 January 2019	**614**	**352**	**1,260**	**425**	**1,685**	**2,651**
Profit for the year	-	-	172	-	172	172
Translation differences	-	-	-	(50)	(50)	(50)
Total comprehensive income for the year ended 31 December 2019	**-**	**-**	**172**	**(50)**	**122**	**122**
Other equity adjustments	-	-	(12)	-	(12)	(12)
Balance at 31 December 2019/ 1 January 2020	**614**	**352**	**1,420**	**375**	**1,795**	**2,761**
Profit for the year	-	-	78	-	78	78
Translation differences	-	-	-	48	48	48
Total comprehensive income for the year ended 31 December 2020	**-**	**-**	**78**	**48**	**126**	**126**
Other equity adjustments	-	-	2	-	2	2
Balance at 31 December 2020	**614**	**352**	**1,500**	**423**	**1,923**	**2,889**

Statements of Changes in Equity

Group	Share capital £ mil	Share premium £ mil	Profit or loss reserve £ mil	Translation reserve £ mil	Total retained earnings £ mil	Total £ mil
Balance at 1 January 2019	**614**	**352**	**1,226**	**455**	**1,681**	**2,647**
Profit for the year	-	-	224	-	224	224
Translation differences	-	-	-	(89)	(89)	(89)
Equity Investment FVOCI	-	-	(3)	-	(3)	(3)
Total comprehensive income for the year ended 31 December 2019	**-**	**-**	**221**	**(89)**	**132**	**132**
Other equity adjustments	-	-	-	-	-	-
Balance at 31 December 2019/ 1 January 2020	**614**	**352**	**1,447**	**366**	**1,813**	**2,779**
Profit for the year	-	-	128	-	128	128
Translation differences	-	-	-	94	94	94
Equity Investment FVOCI	-	-	-	-	-	-
***Total comprehensive income for* the year ended 31 December 2020**	**-**	**-**	**128**	**94**	**222**	**222**
Other equity adjustments	-	-	2	-	2	2
Balance at 31 December 2020	**614**	**352**	**1,577**	**460**	**2,037**	**3,003**

Index to the Notes to the Financial Statements for the Year ended 31 December 2020

Index to the Notes to the Financial Statements

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

1 ACCOUNTING POLICIES

For each accounting topic that is addressed in its own note, the description of the accompanying accounting policy may be found in the related note. The remaining accounting policies are described below.

Index to the Accounting Policies

A BASIS OF PRESENTATION

These financial statements are prepared on a going concern basis in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006. In addition, the consolidated financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (the "applicable framework"), and have been prepared in accordance with the provisions of the Companies Act 2006 (the "applicable legal requirements"). 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 required by the Companies Act 2006, 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 8 European branches

- 'Group' accounts include FCE Bank plc, a UK registered company, and all of its 8 European branches and subsidiaries. Refer to Note 20 'Investments in Other Entities' for details of FCE's subsidiaries

Statement of profit or loss – As permitted by Section 408 of the Companies Act 2006, a separate statement of profit or loss 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'.

Functional and presentation currency – FCE's financial statements are presented in Sterling, being the functional currency of the Group and Company. 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 reporting date.

Statement of profit or loss and statement of cash flows of branches and subsidiaries outside of the UK are translated into the Company's and 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 shareholders' 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 complete or substantial liquidation of a foreign entity such exchange rate differences are recognised within the statement of profit or loss under 'Other operating income' as part of the gain or loss on disposal or liquidation. Exchange rate differences in relation to the transfer of certain assets and liabilities from the Company's German branch to Ford Bank GmbH will be recycled in future years when the remaining portfolio in the German branch is substantially liquidated.

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

1 ACCOUNTING POLICIES CONTINUED

B BASIS OF CONSOLIDATION

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the company, subsidiaries and structured entities. Subsidiaries are those entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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. Intercompany transactions, balances and income and expense on transactions between companies within the Group are eliminated.

For entities purchased which are under common control, the cost of acquisition is recognised as the Net book value.

The consolidated statement of profit or loss and statement of financial position include the financial statements of the Company and its subsidiary undertakings drawn up to the end of the financial year.

(ii) Structured Entities

The structured entities (SEs) utilised by the Company and which are listed within Note 20 'Investments in Other Entities', conduct their activities solely to meet securitisation requirements of the Company. Although the Company does not hold equity interest in the SEs, it is exposed, or has rights, to variable returns from its involvement and has the ability to affect those returns through its power over the SEs and therefore the SEs are consolidated under IFRS 10.

C CRITICAL ACCOUNTING JUDGEMENTS AND 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. The level of estimation uncertainty and judgement has increased since 31 March 2020 as a result of the economic effects of COVID-19. Both PRA and IASB have issued guidance on how to consider provisions under IFRS 9 and management have made several judgements in the current uncertain economic environment.

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
- 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
- The accounting estimate could have a material impact on the financial statements within the next financial period

The estimates that are critical to FCE's business are:

- Allowance for credit losses on loans and advances (refer to Note 13 'Allowance for Expected Credit Losses')
- Vehicle residual value provisions and depreciation rates applied for vehicles subject to operating leases (refer to Note 14 'Provision for Vehicle Residual Value Losses' and Note 15 'Property and Equipment')

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

1 ACCOUNTING POLICIES CONTINUED

In the course of preparing the financial statements, no significant judgements have been made in the process of applying the Group's accounting policies, other than those involving estimations that have had a significant effect on the amounts recognised in the financial statement.

D CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

D1 *Financial Assets*

Financial assets are classified based on the business model within which they are held and their contractual cash flow characteristics, considering whether the cash flows are consistent with a basic financing/lending arrangement. The Group classifies its financial assets in the following categories

- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI) and
- Amortised cost

Classification and subsequent measurement of financial assets depend on

- The Group's business model for managing the financial assets and
- The contractual cash flow characteristics of the financial asset

The business model reflects how the Group manages its financial assets in order to generate cash flows and is determined by whether the Group's objective is solely to collect contractual cash flows from the assets or to collect both contractual cash flows and cash flows arising from the sale of assets. If neither of these models applies, the financial assets are classified at FVPL.

The Group considers past experience in collecting cash flow for a Group of assets, how the performance of the assets are evaluated and reported to key management when determining the business model. The Group's business model as described on page 4 is to hold to collect contractual cash flows arising from the loans to dealers and customers. The Group legally sells loans and advances to internally consolidated SEs for the purpose of collateralising notes issued to Investors with no resulting derecognition by the Group.

Where the business model is to hold financial assets to collect contractual cash flows or to collect contractual cash flows and sell the assets, the Group assesses whether the financial asset's cash flows represent solely payments of principal and interest (the SPPI test). When making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement.

Financial Assets at Amortised Cost

Assets held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated as FVPL, are classified and subsequently measured at amortised cost using the effective interest method. The carrying value of these financial assets is adjusted by any allowance for credit loss recognised and measured. Interest income from these assets is included in Note 2 'Net Interest Income'.

Financial assets at Fair Value through Other Comprehensive Income (FVOCI)

Financial assets that are held for collection of contractual flows and for selling the assets, where those cash flows represents solely payment of principal interest, and that are not designated at FVPL, are classified and subsequently measured at FVOCI. The Group does not hold any debt instruments at FVOCI.

Financial assets at Fair Value through Profit or Loss (FVPL)

Financial assets that do not meet the criteria for recognition at amortised cost or at FVOCI are measured at FVPL.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

1 ACCOUNTING POLICIES CONTINUED

D2 Financial liabilities

Financial liabilities are only derecognised when the obligation specified in the contract is discharged or cancelled or expires. Any difference between the carrying amount and the consideration paid, is recognised in profit or loss.

Financial liabilities at fair value through profit or loss

This consists of derivatives which are held at fair value, with changes in fair value recognised in the statement of profit or loss unless hedge accounting is applied.

Financial liabilities at amortised cost

These include borrowings, 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.

E FAIR VALUE

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.

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.

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 judgements about the assumptions market participants would use in pricing the asset or liability

For additional information concerning recurring fair value measurements, refer to Note 10 'Derivative Financial Instruments and Hedging Activities' and Note 12 'Loans and Advances to Customers' for further details. There were no non-recurring items measured at fair value during the current period.

For certain assets and liabilities which are not measured at fair value, the Group has disclosed their relevant fair values.

F OFFSETTING

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when and only when, the Group has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Group has certain Interest rate derivatives that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the statement of financial position. Refer to Note 10 'Derivative Financial Instruments and Hedging Activities' for further details.

1 ACCOUNTING POLICIES CONTINUED

G ACCOUNTING STANDARDS DEVELOPMENT - IFRS

Interest Rate Benchmark Reform – Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7) with effective date of 1 January 2020
FCE early adopted the Amendment in 2019 and applied it retrospectively to its hedge accounting relationships. The required disclosures are provided within Note 10 'Derivative Financial Instruments and Hedging Activities'.

Others
The following accounting standard amendments/interpretations are mandatory for the financial year beginning 1 January 2020 but are either not relevant or do not have a material impact on the Group's consolidated financial statements:

- Amendments to IFRS 3 'Business Combinations' – Definition of a Business
- Amendments to IAS 1 'Presentation of Financial Statements', IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' – Definition of materials
- Annual improvements to IFRS Standards 2018-2020 cycle, IAS 41 'Agriculture'

The Group continues to monitor new accounting standard/amendments/interpretations that have been issued and become mandatory in subsequent accounting periods. The Group is assessing the potential impact of the following:

- IFRS 17 'Insurance Contracts'
- Annual improvements to IFRS Standards 2018-2020 cycle: IFRS1 'First-time Adoption of International Financial Reporting Standards', IFRS 9 'Financials Instruments'
- Amendments to IFRS 3 'Business Combinations' - Reference to the Conceptual Framework
- Amendments to IFRS 4 'Insurance Contracts' – Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'
- Amendments to IFRS 16 'Leases' – COVID-19-Related Rent Concessions
- Amendments to IAS 1 'Presentation of Financial Statements' – Classification of liabilities
- Amendments to IAS 16 'Property, Plant and Equipment' - Proceeds before intended use
- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets - Onerous contracts
- Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

2 NET INTEREST INCOME

Policy

Interest earned on retail loans and finance leases is generally fixed at the time the contracts are originated.

On certain loans and advances, primarily wholesale financing, FCE charges interest at a floating rate that varies with changes in short-term interest rates.

Revenue from retail loans is calculated using the effective interest rate method. Revenue from finance leases is recognised in order to represent a constant periodic rate of return on the net investment in the lease. Both are recognised in the statement of profit or loss as interest income.

Interest supplements and other support payments from related parties are provided at the time of purchase or origination of eligible contracts. Payments received in relation to retail are deferred on the Statement of Financial Position within **'Loans and Advances to Customers'** and are 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 retail loans and finance leases are regarded as part of the economic return of the receivables and included in its carrying value and deferred. The amount deferred is recognised in interest income, using the effective interest method, over the expected term of the related receivable. The expected term is assessed at an individual contract level for retail loans and finance leases, and the contractual term, given this is the most likely outcome at the outset of the contract.

During 2020, FCE developed and implemented a number of actions to provide support throughout the period of the COVID-19 outbreak, including capital and interest extensions. The impact of these actions to interest income are immaterial.

Based on an assessment of FCE's largest markets contractual term is the expected term of retail loans and finance leases.

		Group	
For the year ended 31 December		**2020 £ mil**	**2019 £ mil**
Interest income	**Note**		
Loans and advances to external parties		275	291
Related parties	34	397	456
Adjustment relating to residual values	14	5	(4)
Cash and short-term deposit income from external parties and other miscellaneous income		2	5
Total interest income		**679**	**748**
Interest expense			
External parties		(129)	(145)
Related parties	34	(88)	(63)
Total interest expense		**(217)**	**(208)**
Net interest income		**462**	**540**

'Interest income from loans and advances to external parties' *includes revenue from retail, finance lease and wholesale* product segments, of which £11 million (2019: £10 million) relates to financial assets classified as FVPL. Income from operating lease vehicles which is reported within Note 4 'Other Operating Income'.

'Interest income from related parties' primarily relates to interest supplements relating to loans and advances received from entities under common control, of which £14 million (2019: £18 million) relates to financial assets classified as FVPL.

'Interest income adjustment relating to residual values' relates to changes in vehicle residual value provisions on retail and finance lease contracts.

'Cash and short-term deposit income from external parties and other miscellaneous income' mainly relates to interest income from short-term investments.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

2 NET INTEREST INCOME CONTINUED

'Interest expense to external parties' includes expense relating to securitisation, local bank borrowings, public debt offering and deposits. It also includes commitment fees incurred on revolving debt facilities that are expected to be utilised.

'Interest expense to related parties' includes expense related to senior and subordinated debt. For further information see the section of Note 21 'Financial Liabilities'.

3 NET FEES AND COMMISSIONS INCOME

	Group	
For the year ended 31 December	**2020**	**2019**
	£ mil	**£ mil**
Fees and commissions income		
Finance related and other fee income	35	36
Insurance sales commission income	26	27
Total fees and commissions income	**61**	**63**
Fees and commissions expense		
Finance related and other fee expense	(11)	(10)
Total fees and commissions expense	**(11)**	**(10)**
Net fees and commissions income	**50**	**53**

'Finance related and other fee income' relates to fees earned which cannot be directly associated with the origination of loans and advances to customers. This includes fee income earned by FCE for the provision of marketing and sales of commercial operating leases ('Full Service Leasing' or 'FSL') to a non-affiliated business partner, typically received monthly in arrears. This income is recognised when it is highly probable that a significant reversal in the revenue recognised will not occur which is usually when the amount is received from third parties. The third party business partner in each market is responsible for financing, maintenance, repair services, the resale of vehicles at the end of the lease period and all associated risks.

'Insurance sales commission income' primarily relates to Ford branded insurance products offered throughout Europe. These insurance products, which are mainly related to vehicle insurance and payment protection plans, are underwritten by non-affiliated local insurance companies from which FCE earns both fixed and variable commission income, but the underwriting risk remains with the third-party insurance companies. FCE is therefore acting as agent, arranging for services to be provided by the third party to the end customer. Insurance sales commission income is earned at the time FCE has fulfilled its performance obligations to the customer which is typically at point of sale of the product or service. Insurance payments collected from the customer, from which FCE retains its commission quota, are typically received monthly in arrears. Where this income is rebateable upon cancellation, a cancellation reserve is established.

'Fees and commissions expense' includes commissions, fees and other bonuses payable to dealers which cannot be directly associated with the origination of loans and advances to customers and are recognised when incurred.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

4 OTHER OPERATING INCOME

Rental income on operating leases is credited to income on a straight-line basis.

	Group	
For the year ended 31 December	**2020** **£ mil**	**2019** **£ mil**
Income from operating leases	218	417
Other operating income	6	9
Total other operating income	**224**	**426**

'Income from operating leases' represents rentals earned for operating lease vehicles leased to commercial customers including leasing companies, daily rental companies and fleet customers. The associated depreciation expense, sale proceeds of vehicles disposed are disclosed within Note 15 'Property and Equipment'.

'Other operating income' is primarily the foreign currency gains on the liquidation of a dormant branch in Norway.

5 OPERATING EXPENSES

		Group	
For the year ended 31 December	**Note**	**2020** **£ mil**	**2019** **£ mil**
Staff costs			
Wages and salaries		127	128
Social security costs		13	15
Retirement benefits	27	21	22
Total staff costs		**161**	**165**
Other expenses			
Software amortisation	17	4	3
Administrative expenses		102	100
Other expenses		8	8
Total other expenses		**114**	**111**
Total operating expenses		**275**	**276**

	Number of employees	
Monthly average number of permanent employees during the year	**1,497**	**1,669**

'Administrative expenses' includes amounts paid to Ford and its related companies for services received which are detailed within Note 34 'Related Party Transactions'. It also includes Auditor Remuneration, details of which are shown on the following page 64.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

5 OPERATING EXPENSES CONTINUED

Auditor Remuneration

	Company		Group	
For the year ended 31 December	**2020**	**2019**	**2020**	**2019**
	£ 000's	**£ 000's**	**£ 000's**	**£ 000's**
Nature of services:				
Audit services				
Audit of parent company and consolidated accounts	2,110	1,961	2,110	1,961
Audit of subsidiaries and SEs pursuant to legislation	-	-	677	539
Total audit services	**2,110**	**1,961**	**2,787**	**2,500**
Assurance services				
Audit related assurance services	153	28	153	28
Other assurance services	194	122	194	122
Total assurance services	**347**	**150**	**347**	**150**
Non-audit services				
Tax compliance services	-	48	-	48
Total non-audit services	**-**	**48**	**-**	**48**
Total fees	**2,457**	**2,159**	**3,134**	**2,698**

Definition of services:

'Audit of parent company and consolidated accounts' relates to audit of the annual financial statements of the Company and the Group and the audit of the Groups corporate consolidation.

'Audit of subsidiaries and SEs pursuant to legislation' relates to the audit of the annual financial statements of the Company's subsidiaries and SEs.

'Audit related assurance services' relate to regulatory reporting services.

'Other assurance services' relate to various assurance services including pool audits and opinion in support of FCE's structured financing programmes.

'Tax compliance services' relate to tax compliance support in relation to tax returns.

For further details on the policies and procedures that govern the engagement of PwC, please refer to the Audit Committee report on page 37 and 38.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

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. Details of the Directors can be found in the Directors report. There are ten Officers defined as the 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 Report - Committees of the Board' on page 33.

Company	**2020**			**2019**		
	Directors	**Officers**	**Total**	**Directors**	**Officers**	**Total**
	£ 000's	**£ 000's**	**£ 000's**	**£ 000's**	**£ 000's**	**£ 000's**
Loans						
Outstanding at 1 January	79	172	251	88	193	281
Issued in the year	174	682	856	282	575	857
Repayments during the year	(163)	(560)	(723)	(291)	(596)	(887)
Loans outstanding at 31 December	**90**	**294**	**384**	**79**	**172**	**251**
Maximum loans in period	109	313	422	98	229	327
Revenue						
Interest revenue from loans	2	6	8	3	7	10
Remuneration payments						
Salaries/other short-term benefits	1,522	1,476	2,998	1,202	1,045	2,247
Post-employment benefits	208	505	713	196	260	456
Share based payments	267	128	395	197	108	305
Total remuneration payments	**1,997**	**2,109**	**4,106**	**1,595**	**1,413**	**3,008**
Customer Deposits						
Deposits during the year	448	163	611	482	249	731
Customer Deposits at 31 December	**448**	**163**	**611**	**482**	**249**	**731**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

6 TRANSACTIONS WITH DIRECTORS' AND OFFICERS' CONTINUED

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). Under the terms of the plan, certain Directors and Officers of the Company have been granted loans under their contract of employment to finance the purchase of vehicles from Ford Motor Company Limited (FMCL). The individual only pays the Company the interest on the loan which is set at a commercial rate. These payments are made 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 by returning the vehicle.

Salaries/other short-term benefits

There was one termination payment made in 2020 to one Officer of £271,472.

Post-employment benefits

Retirement benefits are accruing to two current Directors and six current Officers (2019: two Directors and five Officers) under various Ford retirement benefit schemes.

Share Based Payments

FCE is allocated an RSU expense by Ford relating to the FCE employee services received in exchange for the grant of RSU. This is allocated in line with the vesting period and is recognised by FCE as an expense.

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

During the financial year ended 31 December 2020 no Director or Officer exercised their share options held over Ford Common Stock.

Shares were receivable under a Long Term Incentive scheme by five Directors and nine Officers in 2020.

Directors Emoluments

Aggregate emoluments for the highest paid Director were £518,483 (2019: £504,063).

The highest paid Director in 2020 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 allows for an optional full lump sum payment upon termination of employment. No employer contributions or annual interest payment were made to the GRP in 2020 for the highest paid director. The projected accrued annual benefit at age 65 for the highest paid director in 2020 was £86,534.

The highest paid Director in 2019 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 allows for an optional full lump sum payment upon termination of employment. No employer contributions or annual interest payment were made to the GRP in 2019 for the highest paid Director. The projected accrued annual benefit at age 65 for the highest paid Director in 2019 was £80,149.

7 GAIN/(LOSS) ON FOREIGN EXCHANGE

The table below analyses the gains and losses recognised in the statement of profit or loss within 'Gain/(loss) on foreign exchange' arising primarily from the revaluation of foreign currency assets and liabilities into sterling at exchange rates ruling at the reporting date.

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 currency of the receivables and reduce the exposure to movements in foreign exchange rates.

Consequently, the losses on 'foreign currency debt obligations' of £29 million (2019: £46 million gain) is substantially offset by fair value gains on cross currency interest rate swaps and foreign exchange forwards as detailed in Note 10 'Derivative Financial Instruments and Hedging Activities'.

Refer to Note 31 'Market Risk' for further information on FCE's use of derivatives.

	Group	
For the year ended 31 December	**2020**	**2019**
	£ mil	**£ mil**
Foreign currency debt obligations	(29)	46
Total gain/(loss) on foreign exchange	**(29)**	**46**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

8 INCOME TAX EXPENSE

Income tax payable on profits is based on the applicable tax law in each jurisdiction and is calculated at rates of tax substantially enacted at the reporting 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.

		Group	
For the year ended 31 December	**Note**	**2020** **£ mil**	**2019** **£ mil**
Current tax:			
UK Corporation tax of 19% (2019: 19%)		17	28
Overseas taxation		23	27
Adjustment to prior year corporation tax		3	11
Income tax expense current		**43**	**66**
Deferred tax:			
Current year		13	17
Prior year		-	(10)
Income tax expense deferred	**19**	**13**	**7**
Income tax expense		**56**	**73**

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

	Group	
For the year ended 31 December	**2020** **£ mil**	**2019** **£ mil**
Profit before tax	**184**	**297**
Profit multiplied by standard rate of UK Corporation tax of 19% (2019: 19%)	35	56
Effects of:		
Foreign taxes higher / (lower) than UK taxes	14	17
Prior year current and deferred tax	3	1
Bank surcharge	4	-
Change in tax rates	(1)	(4)
Expenses not deductible	1	3
Income tax expense	**56**	**73**

9 CASH AND CASH EQUIVALENTS

	Company		Group	
As at 31 December	**2020** **£ mil**	**2019** **£ mil**	**2020** **£ mil**	**2019** **£ mil**
Cash in bank	785	560	1,360	618
Cash equivalents	358	181	358	528
Cash and cash equivalents	**1,143**	**741**	**1,718**	**1,146**
Other bank deposits	-	-	216	170
Collateralised deposits	-	-	114	137
Cash associated with securitisation transactions	**-**	**-**	**330**	**307**
Total cash and cash equivalents	**1,143**	**741**	**2,048**	**1,453**
Analysis of cash and cash equivalents:				
Operational cash	41	58	108	117
Held centrally	1,101	681	1,609	1,027
Other cash	1	2	331	309
Total cash and cash equivalents	**1,143**	**741**	**2,048**	**1,453**
Current	1,143	741	2,048	1,453
Total	**1,143**	**741**	**2,048**	**1,453**
Total fair value	**1,143**	**741**	**2,048**	**1,453**

'Cash and cash equivalents' *include cash and highly liquid investments with a maturity of 90 days or less at date of acquisition.*

The net book value of cash and cash equivalents approximates fair value due to the short maturities of these investments.

'Cash associated with securitisation transactions' represents balances held by and available to consolidated SEs. 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 held as additional liquidity in excess of immediate funding requirements.

'Other Cash' represents cash associated with securitisation transactions.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

10 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Policy

In the normal course of business, the Group's operations are exposed to global market risks, including the effect of changes in interest rates and foreign currency exchange rates. To manage these risks, the Group enters into the following highly effective derivative contracts:

- Interest rate contracts, including swaps, that are used to manage the effects of interest rate fluctuations;
- Foreign currency exchange contracts, including forwards, that are used to manage foreign exchange exposure; and
- Cross-currency interest rate swap contracts that are used to manage foreign currency and interest rate exposures on foreign-denominated debt.

The Group reviews its hedging programme, derivative positions, and overall risk management strategy on a regular basis.

The derivatives are over-the-counter (OTC) customised transactions and are not exchange traded. The majority of the Group's OTC derivatives are cleared centrally through a Qualified Central Counterparty (QCCP). Derivative transactions are entered into under International Swaps and Derivatives Association (ISDA) master netting agreements. The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of setoff of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties or following other predetermined events. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The fair value of these instruments is estimated using industry-standard valuation models such as a discounted cash flow. 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. The discount rate used is the relevant benchmark interest rate (e.g. LIBOR, SONIA) plus an adjustment for non-performance risk as applicable. The adjustment reflects the full credit default swap ("CDS") spread applied to a net exposure, by counterparty, considering the master netting agreements and any posted collateral. The counterparty's CDS spread is used when in a net asset position and the Group's CDS spread when in a net liability position. The Group posts initial margin collateral for all centrally cleared OTC interest rate swaps.

Derivatives that are designated in hedging relationships are evaluated for effectiveness using regression analysis at the time they are designated and throughout the hedge period. Some derivatives do not qualify for hedge accounting; for others, the Group has elected not to apply hedge accounting.

'Fair Value Hedges'. All derivatives entered into by FCE are to reduce the risk of changes in the fair value of debt. The Group had designated certain receive-fixed, pay-float interest rate swaps as fair value hedges of fixed-rate debt. The risk being hedged is the risk of changes in the fair value of the hedged debt attributable to changes in the benchmark interest rate. 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. The Group considers whether the critical terms of the hedged item and the hedging instrument closely align when assessing the presence of an economic relationship. If the hedge relationship is deemed to be highly effective, the Group reports the changes in the fair value of the hedged debt related to the risk being hedged in Debt securities in issue and Interest expense. Net interest settlements and accruals, and the fair value changes on hedging instruments are reported in Interest expense. The cash flows associated with fair value hedges are reported in Net cash generated / (used in) from operating activities in the statement of cash flows. The ratio of the quantity of the item being hedged to the notional of the hedge will always be 1:1. The hedge continues to meet the effectiveness requirements when no change has occurred in the hedging relationship or hedge ratio, including no change in notional amount, timing change, or other source of ineffectiveness.

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

a) Formal documentation of the hedging instrument, hedged item, hedge objective, strategy and relationship is prepared at or before inception of the hedge transaction;
b) 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
c) The hedge is highly effective on an ongoing basis, as measured by re-performance of effectiveness testing by the way of regression analysis, on a minimum quarterly basis.

When a fair value hedge is de-designated, or when the derivative is terminated before maturity, the fair value adjustment to the hedged debt continues to be reported as part of the carrying value of the debt and is recognised in Interest income/expense over its remaining life. In 2020, all previously designated interest rates swaps as fair value hedges were de-designated after its risk management hedging objective was met.

10 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES CONTINUED

'Derivatives Not Designated as Hedging Instruments'. The Group reports net interest settlements and accruals in Interest income/expense. Changes in the fair value of interest rate swaps not designated as hedging instruments and foreign currency revaluation on accrued interest along with gains and losses on foreign exchange contracts and cross currency interest rate swaps are reported in Fair value changes on non-designated derivatives. Cash flows associated with non-designated or de-designated derivatives are reported in 'Net cash generated (used in)/from investing activities' in 'Statement of Cash Flows'.

Interest rate swaps with a notional of £17,361 million currently reference LIBOR. An assessment of changes required to these instruments is currently underway.

Income Effect of Derivative Financial Instruments

The gains/(losses), by hedge designation, reported in income for the years ended December 31 were as follows (in millions):

	Group	
As at 31 December	**2020**	**2019**
	£ mil	**£ mil**
Fair value hedges		
Interest rate contracts		
Net interest settlements and accruals on hedging instruments	1	12
Fair value changes on hedging instruments	3	4
Fair value changes on hedged debt	(3)	(3)
Total fair value hedges	**1**	**13**
Derivative not designated as hedging instruments		
Net interest settlements and accruals	3	(2)
Fair value changes on non-designated derivatives		
Interest rate contracts	(32)	(21)
Cross-currency interest rate contracts	23	(29)
Foreign exchange forwards	6	(15)
Total fair value changes on non-designated derivatives	*(3)*	*(65)*
Total non-designated derivatives	**-**	**(67)**
Total	**1**	**(54)**

Statement of Financial Position Effect of Derivative Financial Instruments

Derivative assets and liabilities are reported on the statement of financial position at fair value and are presented on a gross basis. The fair values are included in both assets and liabilities sections of the statement of financial position within Derivative financial instruments. The notional amounts of the derivative instruments do not necessarily represent amounts exchanged by the parties and are not a direct measure of its financial exposure. The Group also enters into master agreements with counterparties that may allow for netting of exposure in the event of default or breach of the counterparty agreement. Collateral represents cash received or paid under reciprocal arrangements entered into with derivative counterparties, which the Group does not use to offset derivative assets and liabilities.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

10 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES CONTINUED

The fair value of the Company and the Group's derivative instruments and the associated notional amounts at December 31 were as follows (in millions):

Company

As at 31 December	2020			2019		
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
		Fair value			Fair value	
	Notional	Assets	Liabilities	Notional	Assets	Liabilities
Fair value hedges						
Interest rate contracts	-	-	-	1,588	33	-
Total fair value hedges	**-**	**-**	**-**	**1,588**	**33**	**-**
Non-designated derivatives						
Interest rate contracts	13,666	63	33	14,215	49	27
Cross currency interest rate contracts	193	26	-	407	58	-
Foreign currency exchange contracts	334	1	1	510	-	6
Total non-designated derivatives	**14,193**	**90**	**34**	**15,132**	**107**	**33**
Total derivative financial instruments	**14,193**	**90**	**34**	**16,720**	**140**	**33**
Derivatives centrally cleared	9,215	16	33	10,229	17	26
Derivatives bilateral collateralised	2,072	2	-	1,646	1	-
Derivatives not cleared	2,906	72	1	4,845	122	7
Total derivative financial instruments	**14,193**	**90**	**34**	**16,720**	**140**	**33**
Current portion	-	62	24	-	73	23
Non-current portion	-	28	10	-	67	10
Total derivative financial instruments	**-**	**90**	**34**	**-**	**140**	**33**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

10 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES CONTINUED

Group

As at 31 December	2020			2019		
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
		Fair value			Fair value	
	Notional	Assets	Liabilities	Notional	Assets	Liabilities
Fair value hedges						
Interest rate contracts	-	-	-	1,588	33	-
Total fair value hedges	**-**	**-**	**-**	**1,588**	**33**	**-**
Non-designated derivatives						
Interest rate contracts	22,143	66	42	20,248	56	36
Cross currency interest rate contracts	193	26	-	407	58	-
Foreign currency exchange contracts	334	1	1	511	-	6
Total non-designated derivatives	**22,670**	**93**	**43**	**21,166**	**114**	**42**
Total derivative financial instruments	**22,670**	**93**	**43**	**22,754**	**147**	**42**
Derivatives centrally cleared	11,451	18	36	11,021	20	26
Derivatives bilateral collateralised	3,832	3	0	3,016	3	3
Derivatives not cleared	7,387	72	7	8,717	124	13
Total derivative financial instruments	**22,670**	**93**	**43**	**22,754**	**147**	**42**
Current portion	-	64	30	-	74	28
Non-current portion	-	29	13	-	73	14
Total derivative financial instruments	**-**	**93**	**43**	**-**	**147**	**42**

All derivatives are categorised within Level 2 of the fair value hierarchy

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

10 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES CONTINUED

The fair value of the Company and the Group's derivative instruments and the associated notional amounts at December 31 were as follows (in millions):

	2020		2019	
Company	**Assets £ mil**	**Liabilities £ mil**	**Assets £ mil**	**Liabilities £ mil**
Gross derivatives amount recognised in the statement of financial position	90	34	140	33
Related amounts not offset				
Amounts subject to master netting agreements	(17)	(17)	(17)	(17)
Cash collateral posted/held	42	2	42	1
Net Amounts	**115**	**19**	**165**	**17**

	2020		2019	
Group	**Assets £ mil**	**Liabilities £ mil**	**Assets £ mil**	**Liabilities £ mil**
Gross derivatives amount recognised in the statement of financial position	93	43	147	42
Related amounts not offset				
Amounts subject to master netting agreements	(17)	(17)	(17)	(17)
Cash collateral posted/held	64	4	53	6
Net Amounts	**140**	**30**	**183**	**31**

At December 31, 2020, the Group no longer holds any instruments designated as fair value hedges to hedge exposure to changes in interest rates:

	Maturity			
	0-6 Months £ mil	**6-12 Months £ mil**	**Beyond 12 Months £ mil**	**Total £ mil**
Designated as fair value hedges				
Interest rate swaps	-	-	-	-
Average interest rate	-	-	-	

December 31, 2019:

	Maturity			
	0-6 Months £ mil	**6-12 Months £ mil**	**Beyond 12 Months £ mil**	**Total £ mil**
Designated as fair value hedges				
Interest rate swaps	589	140	859	1,588
Average interest rate	1.80%	1.78%	1.7%	

11 OTHER ASSETS

Policy

The carrying value of 'Other assets' is stated at amortised cost less any provision for expected credit losses. Vehicles returned to FCE from operating lease, retail and finance leases which are awaiting resale are recorded at the lower of their carrying amount or fair value less costs to sell.

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

Other assets at 31 December were as follows:

		Company		Group	
As at 31 December		**2020 £ mil**	**2019 £ mil**	**2020 £ mil**	**2019 £ mil**
Short-term receivables	**Note**				
Related parties	34	186	55	304	97
External		47	46	97	93
Subsidiary undertakings	34	28	30	-	-
Sub-total short-term receivable		**261**	**131**	**401**	**190**
Loans receivable					
Subsidiary undertakings	34	2,513	2,639	-	-
Sub-total loans receivable		**2,513**	**2,639**	**-**	**-**
Vehicles awaiting resale		41	36	192	267
Restricted cash		420	82	465	97
Prepayments and accrued income		48	44	50	46
Prepaid taxes and related interest		38	26	40	25
Total other assets		**3,321**	**2,958**	**1,148**	**625**
Current		1,100	408	950	493
Non-current		2,221	2,550	198	132
Total other assets		**3,321**	**2,958**	**1,148**	**625**

'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.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

12 LOANS AND ADVANCES TO CUSTOMERS

Policy

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 measured at amortised cost using the effective interest method. Refer to Note 2 'Net Interest Income' for further details.

The majority of Finance Leases consist of Hire Purchase contracts and Trade Cycle Management products as described in the Business Environment section.

		Company		Group	
As at 31 December		**2020**	**2019**	**2020**	**2019**
		£ mil	**£ mil**	**£ mil**	**£ mil**
Loans and advances to customers	**Note**				
Retail loans and receivables		3,067	3,408	5,720	5,666
Finance lease		4,188	4,450	5,207	5,402
Wholesale (a)		3,416	4,713	4,923	6,819
Gross loans and advances to customers		**10,671**	**12,571**	**15,850**	**17,887**
Allowance for expected credit losses	13	(35)	(17)	(46)	(21)
Net loans and advances to customers		**10,636**	**12,554**	**15,804**	**17,866**
Current		6,135	7,532	8,676	10,379
Non-current		4,501	5,022	7,128	7,487
Net Loans and advances to customers		**10,636**	**12,554**	**15,804**	**17,866**
Fair value					
Retail loans and receivables		3,131	3,465	5,873	5,793
Finance Lease		4,332	4,578	5,389	5,563
Wholesale		3,409	4,713	4,911	6,818
Total fair value		**10,872**	**12,756**	**16,173**	**18,174**

(a) During 2020, FCE conducted a review of terms of its wholesale lending products and concluded that the lending terms in one market did not meet the 'solely payments of principal and interest' requirement of IFRS 9. As a result, the wholesale receivables line now includes £560 million (2019 (restated): £654 million) treated as financial assets at fair value through profit or loss (FVPL). The fair value of these assets approximates their book value given the short-term nature of the lending. The related interest received of £25 million (2019: £28 million) continues to be reported within net interest income given this represents the substance of the lending arrangement. FCE provides IFRS 7 disclosures in relation to Loans and Advances to Customers on a total basis including assets measured at FVPL. This approach is considered to present more relevant information to users than IFRS 13 disclosures on fair value given this aligns with how these assets are managed and given book value approximated fair value throughout the current and prior periods.

'Loans and advances to customers' are measured at fair value for purposes of disclosure using internal valuation models. These models project future cash flows of financing contracts based on scheduled contract payments (including principle and interest). The projected cash flows are discounted to present value based on assumptions regarding credit losses, average maturity profile, applicable spreads and operating costs. The fair value is categorised within Level 3 of the hierarchy.

12 LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Finance Leases

As at 31 December	Company		Group	
Finance Lease	**2020 £ mil**	**2019 £ mil**	**2020 £ mil**	**2019 £ mil**
Within 1 year	789	842	1,161	1,139
After 1 year and within 2 years	729	846	1,057	1,158
After 2 year and within 3 years	575	631	828	883
After 3 year and within 4 years	193	246	325	397
After 4 year and within 5 years	6	8	13	19
After 5 years	-	-	-	-
Total finance lease payments receivable	**2,292**	**2,573**	**3,384**	**3,596**
Unguaranteed residual value	2,151	2,170	2,151	2,170
Unearned finance income	(90)	(103)	(139)	(153)
Unearned interest supplements from related parties	(213)	(244)	(242)	(271)
Allowance for expected credit losses	(16)	(10)	(19)	(12)
Provision for vehicle residual value losses	(1)	(5)	(1)	(5)
Deferred origination costs	49	59	54	65
Net investment in finance leases	**4,172**	**4,440**	**5,188**	**5,390**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

13 ALLOWANCE FOR EXPECTED CREDIT LOSSES

The allowance for credit losses represents FCE's estimate of the expected credit loss on retail, finance leases and wholesale receivables at the date of the statement of financial position. The adequacy of the allowance for credit losses is assessed quarterly and the assumptions and models used in establishing the allowance are evaluated regularly. Credit losses can vary substantially over time and, estimating credit losses requires a number of assumptions about matters that are uncertain. The majority of credit losses are attributable to FCE's retail and finance lease portfolios.

Impairment

Under IFRS 9, credit loss allowances are measured on each reporting date according to a three-stage expected credit loss (ECL) impairment model:

- Stage 1 (12 month ECL) – From initial recognition of a financial asset until the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognised equal to the credit losses expected to result from defaults occurring over the next 12 months

- Stage 2 (Lifetime ECL not credit impaired) – Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognised equal to the credit losses expected over the remaining lifetime of the asset

- Stage 3 (Lifetime ECL credit impaired) – When a financial asset is considered to be credit impaired, a loss allowance equal to full lifetime expected credit losses is recognised. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount

Retail and Finance Leases

FCE estimates the allowance for credit losses on retail and lease receivables using a combination of measurement models and management judgement. The models consider factors such as historical trends in credit losses and recoveries, the composition and recent performance of FCE's present portfolio, risk evaluation at the time of origination, and a forecast of future economic conditions. If management does not believe these models reflect expected losses for the portfolio, an adjustment is made to reflect management judgement regarding observable changes in recent or expected economic trends and conditions, portfolio composition, and other relevant factors.

FCE calculates the allowance for credit losses on retail and finance leases using probability of default (PD), exposure at default (EAD), and loss given default (LGD). The probability of default models are developed from internally developed risk scoring models taking into account the expected probability of payment and time to default adjusted for macroeconomic outlook and recent performance. The exposure at default is the expected principal and interest balance due at default. The loss given default is the percentage of the expected balance due at default that is not recoverable, taking account the expected collateral value. The monthly expected credit loss is calculated for each month by applying the expected probability of default to the expected exposure at default and the loss given default. The 12-month and lifetime expected credit losses is calculated by summing these monthly expected credit losses over the next 12 months and remaining lifetime of the receivable, respectively. The expected credit losses are discounted to the reporting date using the original effective interest rate or the current effective interest rate for variable rate.

The loss models incorporate forward-looking macroeconomic conditions for baseline, upturn, and downturn scenarios. Three separate credit loss allowances are calculated from these scenarios. They are then probability-weighted to determine the credit loss allowance recognised in the financial statements. FCE identified that the key macro-economic variables that impact its expected losses, both in Probability of Default and in Loss Given Default include: GDP Growth, CPI, Housing Price Index, and Import of Goods, however the main one is unemployment. The forecast for these variables is sourced from an external vendor for all three scenarios and is used to estimate FCE's expected losses. The period is specific to the particular macroeconomic variable. FCE updates the forecasts quarterly and on an annual basis, FCE evaluates the selection of scenarios and the scenario weighting to ensure they reflect the risk of the portfolio. In the current and prior years the base scenario has been weighted 60%, with the upturn and downturn scenarios both assigned 20% probabilities.

As the retail and finance lease models were not able to reflect appropriately the particular circumstances of COVID-19, including the unprecedented actions taken by to contain and combat the impact, the reserve includes a management overlay to offset the model limitations.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

13 ALLOWANCE FOR EXPECTED CREDIT LOSSES CONTINUED

The following table details the unemployment macro-economic factors applied in the retail and finance lease model for the large FCE markets:

Macro Economics – Average Unemployment Rate

	2020						2019					
	Upturn		Business As Usual		Downturn		Upturn		Business As Usual		Downturn	
Country	Next 12 Months %	Next 5 Years %	Next 12 Months %	Next 5 Years %	Next 12 Months %	Next 5 Years %	Next 12 Months %	Next 5 Years %	Next 12 Months %	Next 5 Years %	Next 12 Months %	Next 5 Years %
UK	7.2	6.1	7.7	6.9	8.7	8.9	3.7	3.6	4.3	4.7	5.1	6.6
Italy	11.6	10.6	11.9	10.9	13.3	12.7	10.1	10.2	10.1	10.3	11.0	12.3
Germany	5.7	5.1	6.3	5.6	7.4	7.3	4.7	5.0	5.0	5.3	5.3	6.3
France	9.5	8.3	10.1	8.6	11.0	9.6	8.0	7.8	8.1	8.0	8.8	9.1
Spain	16.0	13.8	17.0	14.4	20.6	17.8	13.0	12.1	13.9	13.0	16.5	16.8

Wholesale Portfolio

Ford Credit estimates the expected allowance for credit losses for wholesale receivables based on historical experience, expected future cash flows, and the fair value of collateral.

Given the immaterial level of wholesale losses over many years, FCE uses loss-to-receivable (LTR) ratios as a proxy for the base modelled ECL allowance. A LTR for each product is calculated by dividing credit losses by average net finance receivables, excluding unearned interest supplements and allowance for credit losses. The average LTR that is calculated for each product is multiplied by the end-of-period balances for that given product.

After establishing the allowance for expected credit losses, if management believes the allowance does not reflect expected losses for the portfolio due to changes in recent or expected economic trends and conditions, or other relevant factors, an adjustment is made based on management judgement. As the applied methodology was not able to reflect appropriately the particular circumstances of COVID-19, including the unprecedented actions taken by to contain and combat the impact, the reserve includes a management overlay to offset those limitations.

Significant Increase in Credit Risk

In every reporting period, FCE assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. When evaluating assets on a collective basis FCE group the assets on the basis of shared risk characteristics taking into account product type such as consumer/commercial loans and new/used vehicles, initial credit risk category, term, vintage, geography, and other relevant factors.

For retail and finance leases, FCE measures the allowance for credit loss at 12-month expected credit losses. If FCE determines the credit risk of a receivable/group of receivables has increased significantly since origination, FCE increases the measurement of credit loss to an amount equal to the lifetime expected credit loss.

When determining whether credit risk of the retail and finance leases has increased significantly since initial recognition, FCE considers the significant change in actual default experience of the pooled receivables relative to the expectation to date from the original PD, significant changes in macro-economic conditions, past due status, payment performance, and other relevant factors. FCE assumes the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

Retail and finance lease receivables are considered credit impaired or non-performing (stage 3) when it is probable that FCE will be unable to collect all amounts due. Credit impaired receivables can be reclassified to stage 2 once they have cured and when payments are up to date for a period of 12 months, however they cannot be reclassified to stage 1.

13 ALLOWANCE FOR EXPECTED CREDIT LOSSES CONTINUED

FCE measures the allowance for credit loss for wholesale receivables, independent of their contractual maturities, at an amount equal to lifetime expected credit loss. Wholesale receivables with contractual lives of about one year typically have a behavioural life of less than 90 days and payment is required when the dealer has sold the vehicle.

Wholesale receivables are regarded as having had a significant increase in credit risk and are subsequently reported in stage 2 if the loans pertain to a dealer who moved from Group II to Group III (as defined in Note 29 'Credit Risks') after origination, or if the dealer is otherwise regarded as having had a significant increase in credit risk since loan origination, e.g. due to deteriorating cash flow metrics.

Wholesale receivables that have been modified (i.e. forborne exposures) and receivables from dealers classified as Group IV are generally considered credit-impaired. Refer to the Wholesale Credit Risk Management section on page 16 which details the actions taken in response to COVID-19 see Note 29 'Credit Risk'. These receivables can be reclassified to stage 2 once they have cured and are up to date for a period of 12 months.

Retail, Finance Leases and Wholesale Write Off

Initial write-off typically occurs when a customer is assessed as unlikely to pay its credit obligations or when an account reaches 120 days delinquent, whichever is earlier. This initial write-off is based on historic modelled expectations of recoveries, taking consideration of the financial condition of the customer, borrower, or lessee, the value of the collateral, recourse to guarantors, and other factors. A final write-off is performed once all collection avenues have been exhausted. This point varies depending on the product and country, though is typically a number of years after the initial delinquency. The amount written off during the year generally remains subject to enforcement and the amount written off in 2020 was £54 million (2019: £45 million) and recoveries in 2020 were £28 million (2019: £22 million).

The value of the FCE's loans and advances considered to be credit impaired at the reporting date is £262 million (2019: £188 million).

13 ALLOWANCE FOR EXPECTED CREDIT LOSSES CONTINUED

The changes in the Company allowance for expected credit losses for retail, finance leases and wholesale receivables for the year ended December 31, 2020 and 2019 were as follows:

	Company 2020				Company 2019 (Restated)			
	12-month Expected Credit Losses	Lifetime Expected Credit Losses – Not Credit-Impaired	Lifetime Expected Credit Losses – Credit-Impaired	Total	12-month Expected Credit Losses	Lifetime Expected Credit Losses – Not Credit-Impaired	Lifetime Expected Credit Losses – Credit-Impaired	Total
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
Loss allowance at January 1	**16**	**1**	**0**	**17**	**19**	**1**	**0**	**20**
New receivables originated or purchased	6	-	-	6	4	-		4
Transfers out of Stage 1	-	3	0	3	-	1	0	1
Transfers out of Stage 2	0	-	0	0	0	-	0	0
Transfers out of Stage 3	-	0	-	0	-	0	-	0
Remeasurement of loss allowance (a)	5	4	23	32	(2)	(1)	19	16
Receivables derecognised during period	(2)	(1)	0	(3)	(4)	(0)	(0)	(4)
Total net profit or (loss) charge for the period (b)	**9**	**6**	**23**	**38**	**(2)**	**0**	**19**	**17**
Recoveries	-	-	24	24	-	-	20	20
Write off	-	-	(46)	(46)	-	-	(39)	(39)
Exchange rate movements (FX)	2	0	0	2	(1)	0	0	(1)
Loss allowance at December 31	**27**	**7**	**1**	**35**	**16**	**1**	**0**	**17**

(a) The remeasurement line contains the general incremental movements within each stage (e.g. on a regular basis the provision allowances are recalculated using reporting date PD's, LGD's and macro economic factors and a contract will naturally experience an increase or decrease in ECL without changing stage)

(b) Upon review of FCE's business risk profile, the majority of Wholesale receivables are now being recognised in stage 1 and only those that have had a significant increase in credit risk are to be recognised in stage 2.

a. The 12-month ECL (stage 1) for Retail and Finance Lease is £22 million (2019: £16 million) and for Wholesale it is £5 million (2019: £0 million)

b. The lifetime ECL not credit impaired (stage 2) for Retail and Finance Lease is £5 million (2019: £1 million) and for Wholesale it is £2 million (2019: £0 million)

c. The lifetime ECL credit impaired (stage 3) for Retail and Finance Lease is £1 million (2019: £53 million) and for Wholesale it is £0 million (2019: £0 million)

13 ALLOWANCE FOR EXPECTED CREDIT LOSSES CONTINUED

The changes in the Company gross carrying amount for retail, finance leases and wholesale receivables for the year ended December 31, 2020 and 2019 were as follows:

	Company 2020				Company 2019 (Restated)			
	12-month Expected Credit Losses	Lifetime Expected Credit Losses – Not Credit-Impaired	Lifetime Expected Credit Losses – Credit-Impaired	Total	12-month Expected Credit Losses	Lifetime Expected Credit Losses – Not Credit-Impaired	Lifetime Expected Credit Losses – Credit-Impaired	Total
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
GCA at January 1	**12,263**	**176**	**132**	**12,571**	**13,857**	**99**	**238**	**14,194**
New receivables originated or purchased	3,146	-	-	3,146	3,860	-	-	3,860
Transfers out of Stage 1	-	877	20	897	-	147	26	173
Transfers out of Stage 2	5	-	126	131	37	-	2	39
Transfers out of Stage 3	-	36	-	36	-	21	-	21
Changes in GCA (a)	(4,671)	178	23	(4,470)	(2,623)	(40)	(36)	(2,699)
Receivables derecognised during period	(1,496)	(319)	(84)	(1,899)	(2,559)	(51)	(79)	(2,689)
Recoveries	-	-	24	24	-	-	20	20
Write off	-	-	(46)	(46)	-	-	(39)	(39)
Exchange rate movements (FX)	281	-	-	281	(309)	-	-	(309)
GCA at December 31 (b)	**9,528**	**948**	**195**	**10,671**	**12,263**	**176**	**132**	**12,571**

(a) Changes in the GCA is primarily related to customer payments

(b) Upon review of FCE's business risk profile, the majority of Wholesale receivables are now being recognised in stage 1 and only those that have had a significant increase in credit risk are to be recognised in stage 2.

   a. The 12-month GCA (stage 1) for Retail and Finance Lease is £6,351 million (2019: £7,629 million) and for Wholesale it is £3,177 million (2019 (restated): £4,634 million)
   b. The lifetime GCA not credit impaired (stage 2) for Retail and Finance Lease is £856 million (2019: £176 million) and for Wholesale it is £92 million (2019 (restated): £0 million)
   c. The lifetime GCA credit impaired (stage 3) for Retail and Finance Lease is £48 million (2019: £53 million) and for Wholesale it is £147 million (2019: £79 million)

13 ALLOWANCE FOR EXPECTED CREDIT LOSSES CONTINUED

The changes in the Group allowance for expected credit losses for retail, finance leases and wholesale receivables for the year ended December 31, 2020 and 2019 were as follows:

	Group 2020				Group 2019 (Restated)			
	12-month Expected Credit Losses	Lifetime Expected Credit Losses – Not Credit-Impaired	Lifetime Expected Credit Losses – Credit-Impaired	Total	12-month Expected Credit Losses	Lifetime Expected Credit Losses – Not Credit-Impaired	Lifetime Expected Credit Losses – Credit-Impaired	Total
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
Loss allowance at January 1	**20**	**1**	**0**	**21**	**22**	**1**	**0**	**23**
New receivables originated or purchased	8	-	-	8	6	-	-	6
Transfers out of Stage 1	-	3	0	3	-	1	0	1
Transfers out of Stage 2	0	-	0	0	0	-	0	0
Transfers out of Stage 3	-	0	-	0	-	0	-	0
Remeasurement of loss allowance (a)	7	5	29	41	(3)	(1)	23	19
Receivables derecognised during period	(2)	(1)	0	(3)	(4)	(0)	(0)	(4)
Total net profit or (loss) charge for the period (b)	**13**	**7**	**29**	**49**	**(1)**	**0**	**23**	**22**
Recoveries	-	-	28	28	-	-	22	22
Write off	-	-	(54)	(54)	-	-	(45)	(45)
Exchange rate movements (FX)	1	1	0	2	(1)	0	0	(1)
Loss allowance at December 31	**34**	**9**	**3**	**46**	**20**	**1**	**0**	**21**

(a) The remeasurement line contains the general incremental movements within each stage (e.g. on a regular basis the provision allowances are recalculated using reporting date PD's, LGD's and macro economic factors and a contract will naturally experience an increase or decrease in ECL without changing stage)

(b) Upon review of FCE's business risk profile, the majority of Wholesale receivables are now being recognised in stage 1 and only those that have had a significant increase in credit risk are to be recognised in stage 2.

   a. The 12-month ECL (stage 1) for Retail and Finance Lease is £27 million (2019: £20 million) and for Wholesale it is £7 million (2019: £0 million)
   b. The lifetime ECL not credit impaired (stage 2) for Retail and Finance Lease is £6 million (2019: £1 million) and for Wholesale it is £3 million (2019: £0 million)
   c. The lifetime ECL credit impaired (stage 3) for Retail and Finance Lease is £1 million (2019: £53 million) and for Wholesale it is £2 million (2019: £0 million)

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

13 ALLOWANCE FOR EXPECTED CREDIT LOSSES CONTINUED

The changes in the Group gross carrying amount (GCA) for retail, finance leases and wholesale receivables for the year ended December 31, 2020 and 2019 were as follows:

	Group 2020				Group 2019 (Restated)			
	12-month Expected Credit Losses	Lifetime Expected Credit Losses – Not Credit-Impaired	Lifetime Expected Credit Losses – Credit-Impaired	Total	12-month Expected Credit Losses	Lifetime Expected Credit Losses – Not Credit-Impaired	Lifetime Expected Credit Losses – Credit-Impaired	Total
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
GCA at January 1	**17,426**	**273**	**188**	**17,887**	**18,152**	**117**	**280**	**18,549**
New receivables originated or purchased	4,490	-	-	4,490	5,737	-	-	5,737
Transfers out of Stage 1	-	949	51	1,000	-	222	49	271
Transfers out of Stage 2	6	-	143	149	37	-	3	40
Transfers out of Stage 3	-	70	-	70	-	38	-	38
Changes in GCA (a)	(6,100)	138	12	(5,950)	(3,169)	(38)	(29)	(3,237)
Receivables derecognised during period	(1,860)	(346)	(106)	(2,312)	(2,764)	(66)	(92)	(2,922)
Recoveries	-	-	28	28	-	-	22	22
Write off	-	-	(54)	(54)	-	-	(45)	(45)
Exchange rate movements (FX)	542	-	-	542	(567)	-	-	(567)
GCA at December 31 (b)	**14,504**	**1,084**	**262**	**15,850**	**17,426**	**273**	**188**	**17,887**

(a) Changes in the GCA is primarily related to customer payments

(b) Upon review of FCE's business risk profile, the majority of Wholesale receivables are now being recognised in stage 1 and only those that have had a significant increase in credit risk are to be recognised in stage 2

   a. The 12-month GCA (stage 1) for Retail and Finance Lease is £9,843 million (2019: £10,693 million) and for Wholesale it is £4,661 million (2019 (restated): £6,733 million)
   b. The lifetime GCA not credit impaired (stage 2) for Retail and Finance Lease is £990 million (2019: £273 million) and for Wholesale it is £94 million (2019 (restated): £0 million)
   c. The lifetime GCA credit impaired (stage 3) for Retail and Finance Lease is £94 million (2019: £102 million) and for Wholesale it is £168 million (2019: £86 million)

13 ALLOWANCE FOR EXPECTED CREDIT LOSSES CONTINUED

Sensitivity Analysis

Changes in the probability of default and loss given default assumptions could be driven by actual default performance, as well as changes in the macroeconomic outlook and these would affect the allowance for credit losses. Compared to the yearend reserve level, the credit loss value would have increased by 29% if downturn was weighted at 100% (assuming no changes in staging). In an extreme scenario, if the downturn scenario given 100% weighting and all contracts moved from 12 month to lifetime ECL, then the ECL would increase by about 81% from £31 million to £56 million.

The analysis below assumes no additional provisions are required for wholesale exposures in a downturn given FCE's experience of mitigating loss through enforcing collateral held and other measures.

As at 31 December
Retail and Lease

	2020 Expected Credit Losses			2019 Expected Credit Losses		
Country	**Probability Weighted Current Staging**	**100% Downturn Scenario Current Staging**	**100% Downturn Scenario All contracts at Lifetime**	**Probability Weighted Current Staging**	**100% Downturn Scenario Current Staging**	**100% Downturn Scenario All contracts at Lifetime**
	£ mil	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**
UK	10	13	17	6	7	12
Italy	10	13	18	5	7	11
Germany	5	6	11	5	5	10
France	2	2	3	1	1	2
Spain	3	3	6	1	1	2
FCE Other	1	2	1	3	3	4
Total FCE	**31**	**39**	**56**	**21**	**24**	**41**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

14 PROVISION FOR VEHICLE RESIDUAL VALUE LOSSES

Policy

Residual values represent the estimated value of the vehicle at the end of the retail and lease financing plan. Residual values are calculated after analysing published residual values and FCE's own historical experience in the used vehicle market. Vehicle residual value provisions are reviewed at least quarterly and are accounted for as an adjustment to the carrying value of the assets. The amount of any impairment to residual values is accounted for as a deduction from 'Loans and advances to customers' for retail and lease contracts. These assumptions and the related reserves may change based on market conditions.

Changes to residual value provisions for retail and finance lease contracts are included in the consolidated statement of profit or loss and other comprehensive income within Interest Income.

		Company		Group	
		2020 £ mil	2019 £ mil	2020 £ mil	2019 £ mil
	Note				
Beginning of period balance		5	1	5	1
Residual value adjustments charged/(credited) to Income Statement	2	(5)	4	(5)	4
Residual value losses incurred in the period		1	-	1	-
End of period balance		1	5	1	5

15 PROPERTY AND EQUIPMENT

	Company				Group			
	Leasehold improvements £ mil	Office Equipment £ mil	Motor Vehicles £ mil	Total £ mil	Leasehold improvements £ mil	Office Equipment £ mil	Motor Vehicles £ mil	Total £ mil
Cost								
At 1 January 2019	1	3	1	5	2	4	453	459
Additions	-	1	1	2	-	1	1,073	1,074
Disposals (a)	-	-	(1)	(1)	-	-	(1,069)	(1,069)
Translation adjustment	-	-	(1)	(1)	-	-	(80)	(80)
At 31 December 2019/ 1 January 2020	**1**	**4**	**-**	**5**	**2**	**5**	**377**	**384**
Additions	-	-	1	1	-	-	641	641
Disposals (a)	-	-	-	-	-	-	(691)	(691)
Translation adjustment	-	-	-	-	-	-	36	36
At 31 December 2020	**1**	**4**	**1**	**6**	**2**	**5**	**363**	**370**
Accumulated Depreciation								
At 1 January 2019	1	2	-	3	2	3	75	80
Charge for the year	-	-	-	-	-	-	400	400
Disposal including adjustment on returned vehicles	-	-	-	-	-	-	(376)	(376)
Translation adjustment	-	(1)	-	(1)	-	-	(25)	(25)
At 31 December 2019/ 1 January 2020	**1**	**1**	**-**	**2**	**2**	**3**	**74**	**79**
Charge for the year	-	-	1	1	-	-	190	190
Disposal including adjustment on returned vehicles	-	-	(1)	(1)	-	-	(228)	(228)
Translation adjustment	-	-	-	-	-	-	13	13
At 31 December 2020	**1**	**1**	**-**	**2**	**2**	**3**	**49**	**54**
Net book value at 31 December 2019	**-**	**3**	**-**	**3**	**-**	**2**	**303**	**305**
Net book value at 31 December 2020	**-**	**3**	**1**	**4**	**-**	**2**	**314**	**316**

(a) Operating lease vehicles with the cost of sale £691 million (2019: £1,069 million) were sold for £555 million (2019: £657 million).

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

15 PROPERTY AND EQUIPMENT CONTINUED

Policy

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	16.67%
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 statement of profit or loss.

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'.

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.

	Company		Group	
As at 31 December	**2020**	**2019**	**2020**	**2019**
	£ mil	**£ mil**	**£ mil**	**£ mil**
Analysis of property and equipment				
Current	-	-	312	300
Non-current	4	3	4	5
Total	**4**	**3**	**316**	**305**

	Company		Group	
As at 31 December	**2020**	**2019**	**2020**	**2019**
	£ mil	**£ mil**	**£ mil**	**£ mil**
Operating Leases				
Cost	-	-	360	375
Accumulated depreciation	-	-	(49)	(75)
Total	**-**	**-**	**311**	**300**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

16 RIGHT OF USE ASSETS AND LEASE COMMITMENTS

Policy

The group lease offices and office equipment under agreements with contractual periods ranging from less than one year to ten years. Some leases contain one or more options to extend and include options that are reasonably certain to be exercised in the group's evaluation of the lease term after considering all relevant economic and financial factors.

Leases are recognised as a right-of-use asset and a corresponding liability at the date in which the leased asset is available for use. The right-of-use assets and lease liabilities are reported separately on the statement of financial position.

The right-of-use asset is initially measured at cost and is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life or the end of the lease term.

The group does not separate the non-lease components (e.g., maintenance and operating services) from the lease components to which they relate. Instead, non-lease components are included in the measurement of the lease liabilities. The initial lease liability is calculated as the present value of fixed payments not yet paid and variable payments that are based on a market rate or an index (e.g. CPI), measured at commencement. The majority of the leases are discounted using internal incremental borrowing rate because the rate implicit in the lease is not readily determinable. All other variable payments are expensed as incurred.

The lease liability is measured at amortised cost using the effect interest method. It is remeasured when there is a change in future lease payments arising from changes in rates or assessments of options.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

16 RIGHT OF USE ASSETS AND LEASE COMMITMENTS CONTINUED

Lease right-of-use assets at December 31 were as follows (in thousands):

	Company			Group		
	Land and Buildings £ 000's	Office Equipment £ 000's	Total £ 000's	Land and Buildings £ 000's	Office Equipment £ 000's	Total £ 000's
Cost						
At 1 January 2019	13,349	254	13,603	21,262	459	21,721
New Leases	18,168	-	18,168	18,168	-	18,168
At 31 December 2019/ 1 January 2020	**31,517**	**254**	**31,771**	**39,430**	**459**	**39,889**
Modification to the original cost	(3,569)	4	(3,565)	(2,707)	4	(2,703)
Lease termination	(47)	(15)	(62)	(69)	(15)	(84)
New Leases	-	-	-	31	-	31
Translation Adjustment	129	7	136	165	18	183
At 31 December 2020	**28,030**	**250**	**28,280**	**36,850**	**466**	**37,316**
Accumulated Depreciation						
At 1 January 2019	-	-	-	-	-	-
Charge for the year	(3,209)	(113)	(3,322)	(4,486)	(190)	(4,676)
At 31 December 2019/ 1 January 2020	**(3,209)**	**(113)**	**(3,322)**	**(4,486)**	**(190)**	**(4,676)**
Charge for the year	(4,444)	(105)	(4,549)	(6,003)	(189)	(6,192)
Lease termination	-	15	15	5	16	21
At 31 December 2020	**(7,653)**	**(203)**	**(7,856)**	**(10,484)**	**(363)**	**(10,847)**
Net carrying amount at 31 December 2019	**28,308**	**141**	**28,449**	**34,944**	**269**	**35,213**
Net carrying value at 31 December 2020	**20,377**	**47**	**20,424**	**26,366**	**103**	**26,469**

16 RIGHT OF USE ASSETS AND LEASE COMMITMENTS CONTINUED

Minimum non-cancellable lease commitments at December 31, 2020 were as follows (in thousands):

	Company		Group	
As at 31 December	**2020 £ 000's**	**2019 £ 000's**	**2020 £ 000's**	**2019 £ 000's**
2021	4,404	4,342	5,795	5,684
2022	4,227	4,253	5,376	5,517
2023	3,699	4,124	4,847	5,150
2024	3,670	3,539	4,818	4,563
2025	2,802	3,489	3,950	4,513
Thereafter	1,622	8,702	1,683	9,786
Total	**20,424**	**28,449**	**26,469**	**35,213**

The amounts contractually due on lease liabilities as of December 31, 2020 were as follows (in thousands):

	Company		Group	
As at 31 December	**2020 £ 000's**	**2019 £ 000's**	**2020 £ 000's**	**2019 £ 000's**
Lease Commitments:				
Within 1 year	4,858	4,693	6,264	6,112
After 1 year and within 2 years	4,667	4,588	5,834	5,922
After 2 year and within 3 years	4,138	4,420	5,305	5,516
After 3 year and within 4 years	4,109	3,789	5,275	4,884
After 4 year and within 5 years	3,098	3,753	4,265	4,848
After 5 years	1,701	10,302	1,807	11,497
Total	*22,571*	*31,545*	*28,750*	*38,779*
Less: Present value discount	(1,895)	(2,806)	(1,995)	(3,201)
Total lease liabilities	**20,676**	**28,739**	**26,755**	**35,578**

Supplemental cash flow information related to leases for the year ended December 31 was as follows (in thousands):

	Company		Group	
As at 31 December	**2020 £ 000's**	**2019 £ 000's**	**2020 £ 000's**	**2019 £ 000's**
Cash paid for amounts included in the measurement of lease liabilities	**5,060**	**3,675**	**6,567**	**5,105**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

16 RIGHT OF USE ASSETS AND LEASE COMMITMENTS CONTINUED

The components of lease expense for the year ended December 31 were as follows (in thousands):

	Group	
As at 31 December	**2020**	**2019**
	£ 000's	**£ 000's**
Depreciation		
Land and buildings	6,003	4,486
Machinery, equipment, and other	189	190
Total depreciation	*6,192*	*4,676*
Other Expenses		
Interest expense	1,177	538
Variable lease expense	-	-
Sublease income	(312)	(253)
Total lease liabilities	**7,057**	**4,961**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

17 INTANGIBLE ASSETS

Policy

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 six or eight years for PC/network and mainframe applications respectively. 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 in the statement of profit or loss within 'operating expenses'.

	Company			Group		
	Software		Total	Software		Total
	Internally generated £ mil	Externally acquired £ mil	£ mil	Internally generated £ mil	Externally acquired £ mil	£ mil
Cost						
At 1 January 2019	40	19	59	41	19	60
Additions	17	6	23	17	6	23
Transfer/Disposals	(6)	(8)	(14)	(7)	(8)	(15)
At 31 December 2019 / 1 January 2020	**51**	**17**	**68**	**51**	**17**	**68**
Additions	24	1	25	25	1	26
Transfer/Disposals	(22)	-	(22)	(23)	-	(23)
At 31 December 2020	**53**	**18**	**71**	**53**	**18**	**71**
Accumulated amortisation and impairment						
At 1 January 2019	(23)	(17)	(40)	(24)	(17)	(41)
Amortisation charge for the year	(3)	-	(3)	(3)	-	(3)
Transfer/Disposals	-	1	1	1	1	2
At 31 December 2019 / 1 January 2020	**(26)**	**(16)**	**(42)**	**(26)**	**(16)**	**(42)**
Amortisation charge for the year	(2)	(2)	(4)	(2)	(2)	(4)
Transfer/Disposals	8	-	8	8	-	8
At 31 December 2020	**(20)**	**(18)**	**(38)**	**(20)**	**(18)**	**(38)**
Net book value at 31 December 2019	**25**	**1**	**26**	**25**	**1**	**26**
Net book value at 31 December 2020	**33**	**-**	**33**	**33**	**-**	**33**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

18 INCOME TAXES RECEIVABLE AND PAYABLE

	Company		Group	
As at 31 December	**2020 £ mil**	**2019 £ mil**	**2020 £ mil**	**2019 £ mil**
Overseas taxation	7	11	7	11
Income taxes receivable	**7**	**11**	**7**	**11**
UK taxation	(9)	(15)	(9)	(15)
Overseas taxation	(5)	(16)	(19)	(22)
Income taxes payable	**(14)**	**(31)**	**(28)**	**(37)**
Net income taxes receivable / payable	**(7)**	**(20)**	**(21)**	**(26)**
Current	(7)	(20)	(21)	(26)
Non-current	-	-	-	-
Total	**(7)**	**(20)**	**(21)**	**(26)**

19 DEFERRED TAX ASSETS AND LIABILITIES

	Company		Group	
	2020 £ mil	**2019 £ mil**	**2020 £ mil**	**2019 £ mil**
At 1 January asset	41	28	46	56
Adoption of IFRS 9/Pension OCI	-	-	1	-
Income statement (charge)/credit	3	12	(13)	(7)
Transfers	-	(1)	-	(3)
Foreign currency translation adjustment	1	2	1	-
At 31 December asset	**45**	**41**	**35**	**46**

19 DEFERRED TAX ASSETS AND LIABILITIES CONTINUED

	Company		Group	
As at 31 December	**2020 £ mil**	**2019 £ mil**	**2020 £ mil**	**2019 £ mil**
Deferred income tax asset				
Accelerated tax depreciation	19	21	19	21
Tax losses	22	21	22	26
Loss reserves and other temporary differences	16	16	18	24
Deferred income tax asset	**57**	**58**	**59**	**71**
Deferred income tax liability				
Accelerated tax depreciation	-	-	(13)	-
Loss reserves and other temporary differences	(12)	(17)	(11)	(25)
Deferred income tax liability	**(12)**	**(17)**	**(24)**	**(25)**
At 31 December asset	**45**	**41**	**35**	**46**

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 statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in the statement of changes in equity.

Deferred tax is determined using tax rates and laws that have been substantively enacted by the reporting 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.

		Company		Group	
	Note	**2020 £ mil**	**2019 £ mil**	**2020 £ mil**	**2019 £ mil**
Accelerated tax depreciation		(2)	6	(15)	(4)
Tax losses		(1)	(2)	(7)	(9)
Loss reserves and other temporary differences		6	8	9	6
Income statement (charge) / Credit	**8**	**3**	**12**	**(13)**	**(7)**

It was announced in the UK Budget on 3 March 2021 that mainstream rate of Corporation Tax will increase from the present 19% to 25% from April 2023. However it was also stated in the Budget that the government will set out in the Autumn how it intends to ensure that the combined rate for banks including the 8% Bank Surcharge does not increase substantially from its current level. Consequently the impact for FCE is not expected to be material.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

20 INVESTMENTS IN OTHER ENTITIES

Investments in non-Group entities at 31 December were as follows:

	Group	
As at 31 December	**2020** **£ mil**	**2019** **£ mil**
Fair value at 1 January	0	4
Fair value adjustment through OCI	(0)	(4)
Fair value at 31 December	**-**	**-**
Non-current	-	0
Fair value at 31 December	**-**	**0**

Investments in Subsidiaries and Group undertakings at 31 December were as follows:

	Company	
As at 31 December	**2020** **£ mil**	**2019** **£ mil**
Net book value at 1 January	840	759
Fair value adjustment through OCI	(0)	(4)
Repayments of Group undertakings	-	(17)
Investments in Group undertakings	2	102
Net book value at 31 December	**842**	**840**
Non-current	842	840
Net book value at 31 December	**842**	**840**

'Investments in Group undertakings' relates to the initial share capital for the incorporation of the new company Ford Credit Italia S.p.A (£1.8 million).

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

20 INVESTMENTS IN OTHER ENTITIES CONTINUED

List of Consolidated Companies

Subsidiary Undertakings

Entity	Country of Incorporation	Principal Activity	Accounting Reference Date	Ownership
FCE Credit s.r.o.	Czech Republic	Finance company	31 December	100%
Ford Bank GmbH	Germany	Bank	31 December	100%
FCE Credit Hungaria Zrt	Hungary	Finance company	31 December	100%
FCE Services Kft *	Hungary	Finance company	31 December	100%
Ford Credit (Switzerland) GmbH	Switzerland	Finance company	31 December	100%
Globaldrive (Switzerland) GmbH *	Switzerland	Structured entity	31 December	100%
Ford Credit Italia S.p.A	Italy	Finance company	31 December	100%

*subsidiaries indirectly owned by the Company

Structured Entities (SE)*

Entity	Country of Incorporation	Assets Securitised or SE type	Accounting Reference Date	Ownership
Active Retail SE's				
Globaldrive Auto Receivables UK VFN 2017 plc	England	UK Retail	31 December	0%
Globaldrive Auto Receivables UK 2018-A plc	England	UK Retail	31 December	0%
Globaldrive Auto Receivables UK 2019-A plc	England	UK Retail	31 December	0%
Globaldrive Auto Receivables UK 2020-A plc	England	UK Retail	31 December	0%
Globaldrive Auto Receivables UK 2020-B plc	England	UK Retail	31 December	0%
Globaldrive Germany Retail VFN 2018 B.V	Netherlands	Germany Retail	31 December	0%
Globaldrive Auto Receivables 2017-A B.V	Netherlands	Germany Retail	31 December	0%
Globaldrive Auto Receivables 2018-A B.V	Netherlands	Germany Retail	31 December	0%
Globaldrive Auto Receivables 2019-A B.V	Netherlands	Germany Retail	31 December	0%
Globaldrive Auto Receivables 2020-A B.V	Netherlands	Germany Retail	31 December	0%
Active Wholesale SE's				
Globaldrive UK Dealer Floorplan Funding I Limited	Jersey	UK Wholesale - Funding	31 December	0%
Globaldrive UK Dealer Floorplan Receivables Trustee I Ltd	Jersey	UK Wholesale - Receivables Trustee	31 December	0%
Globaldrive Dealer Floorplan Germany 2018 B.V.	Netherlands	Germany Wholesale	31 December	0%
Inactive Retail SE's (pending liquidation):				
Globaldrive Germany Retail VFN 2011 B.V	Netherlands	Germany Retail	In the process of being liquidated	
Globaldrive Auto Receivables UK 2017-A plc	England	UK Retail	In the process of being liquidated	

*Quasi-subsidiaries of the Company as recognised under IFRS 10 and included within the consolidation of the Group accounts.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

21 FINANCIAL LIABILITIES

Policy

Financial liabilities, which primarily comprises amounts due to banks and other financial institutions, deposits, debt securities in issue and subordinated loans, are initially stated at fair value net of transaction costs incurred.

Financial liabilities, which are not designated as part of a hedging relationship, are subsequently stated at amortised cost and any differences between net proceeds and the redemption value are recognised in the statement of profit or loss over the life of the underlying debt.

Certain transaction costs, which can be directly associated to the issuance of financial liabilities, are included in the initial measurement of the debt and amortised to 'interest expense' over the term of the related debt using the effective interest method. Transaction costs which cannot be directly associated to debt issuance are expensed to 'Operating expenses'. Where commitment fees are incurred in relation to revolving credit facilities and there is an expectation that the facility will be utilised, the fees will be initially recorded as an asset and amortised on a straight line basis to 'interest expense' over the total commitment period.

Foreign currency debt obligations are translated into sterling at the exchange rates ruling at the reporting date and gains and losses are recorded within 'Gain/(Loss) on foreign exchange' on the statement of profit or loss. The table below provides a summary of the total financial liabilities. Due to banks and financial Institutions, in the table below, is primarily made up of private securitisation transactions and an ECB loan. Further details on the 'Debt securities in issue' and 'Due to parent and related undertakings' are provided in subsequent tables:

	Company		Group	
As at 31 December	**2020** **£ mil**	**2019** **£ mil**	**2020** **£ mil**	**2019** **(Restated)** **£ mil**
Due to banks and financial institutions	113	347	1,798	2,584
Debt securities in issue	3,576	5,445	4,814	7,607
Due to parent and related undertakings	5,697	6,520	5,854	5,124
Total financial liabilities	**9,386**	**12,312**	**12,466**	**15,315**
Current (a)	3,421	3,372	4,818	4,556
Non-current (a)	5,965	8,940	7,648	10,759
Total financial liabilities	**9,386**	**12,312**	**12,466**	**15,315**
Total fair value	**9,349**	**12,369**	**12,413**	**15,374**

(a) Upon review, for Group, it was determined that £849 million (1 January 2019: £1,506 million) 'Due to banks and financial institutions' previously classified as current should have been classified as non-current. The classification has been restated accordingly. There was no impact on profit, total assets or total equity from this reclassification.

'Debt' is measured at fair value for the purposes of disclosure, using quoted prices for its own debt with approximately the same remaining maturities, where possible. Where quoted prices are not available, FCE estimates fair value using discounted cash flows and market-based expectations for interest rates, credit risk, and the contractual terms of the debt instruments. For certain short-term debt with an original maturity date of one year or less, it assumes the carrying value is a reasonable approximation of fair value. The fair value of debt is categorised within Level 2 of the hierarchy.

21 FINANCIAL LIABILITIES CONTINUED

Debt securities in issue

	Company		Group	
As at 31 December	**2020 £ mil**	**2019 £ mil**	**2020 £ mil**	**2019 £ mil**
Listed debt:				
Euro Medium Term Notes issued				
Designated hedged items	-	4,601	-	4,601
non-hedged items	3,450	638	3,450	638
Asset backed securities	-	-	1,238	2,162
Sub-total listed debt:	**3,450**	**5,239**	**4,688**	**7,401**
Unlisted debt:				
Euro Medium Term Notes issued				
Non-hedged items	107	169	107	169
Sub-total unlisted debt:	**107**	**169**	**107**	**169**
Fair value adjustment on hedged notes (a)	19	37	19	37
Total securities issued a/	**3,576**	**5,445**	**4,814**	**7,607**
Note a/ of which de-designated	19	16	19	16

(a) At December 31, 2020 and 2019, the balance includes an unfavourable adjustment related to discontinued hedging relationships of £19 million and £16 million, respectively

FCE allowed its Euro Medium Term Notes (EMTN) platform to expire in September 2019, but has retained the capability to restart this platform within 6 months of the publication of the financial statements.

The Group repaid the equivalent of £2 billion (2019: £1.6 billion) of primarily Sterling and Euro denominated EMTN loans that matured during the year.

The remaining movement of the EMTN's from December 2019 represents currency revaluation.

'Asset backed securities' for more information, please see Note 22 'Securitisation and Related Financing'.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

21 FINANCIAL LIABILITIES CONTINUED

Due to parent and related undertakings

	Company		Group	
As at 31 December	**2020 £ mil**	**2019 £ mil**	**2020 £ mil**	**2019 £ mil**
Sub loans:				
Loans from FCSH GmbH	**250**	**248**	**375**	**366**
Senior debt:				
Loans from FCSH GmbH	395	422	395	422
Loans from Ford Credit	4,395	3,674	4,933	4,185
Deposits received from related undertakings	16	15	16	15
Sub-total senior debt:	***4,806***	**4,111**	***5,344***	**4,622**
Net cash proceeds from structured financing	**529**	**2,042**	**-**	**-**
Trade and other payables:				
Accounts payable to related undertakings	108	113	130	130
Accrued interest	4	6	5	6
Sub-total trade and other payables	***112***	***119***	***135***	***136***
Total due to parent and related undertakings	**5,697**	**6,520**	**5,854**	**5,124**

'Sub loans' listed above are subordinated loans, which satisfy the conditions for eligibility as Tier 2 capital instruments, and are included in the calculation of 'Own Funds', as shown in Table 14 on page 162. For further details refer to the unaudited Pillar 3 Disclosures in Table 14 on page 162. The rights 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. For further details refer to Table 15 in the unaudited 'Pillar 3 Disclosures' on page 163.

'Senior debt' comprises various loans with related parties, which include two (2019: three) Sterling denominated loans from FCSH to FCE, as well as nine (2019: seven) Euro denominated loans from Ford Credit to FCE, one (2019: zero) Swiss Franc denominated loan from Ford Credit to FCE and two (2019: two) Euro denominated loan from Ford Credit to the Ford Bank GmbH.

'Net cash proceeds from structured financing' represents proceeds received from the transfer of loans to SEs. This liability is reported net of retained interests and is not the legal obligation of the Company. It is repayable only out of collections on the underlying loans transferred to the finance provider or retained interests.

22 SECURITISATION AND RELATED FINANCING

FCE's funding sources include securitisation programmes as well as other secured financing transactions that generally include the transfer of 'Loans and advances to customers' (Asset backed securities) through a variety of programmes and structures.

These asset backed securities are encumbered through the use of these programmes and are therefore restricted from being assigned, pledged or transferred within the group again whilst part of these programmes.

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.

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. By providing these enhancements, FCE has entered into transfers (as described in IFRS 9 'Financial Instruments') that do not qualify for de-recognition of the underlying assets. FCE therefore continues to recognise the carrying value of all securitised assets within its statements of financial position.

For regulatory reporting, these assets are also reported as encumbered. Further details on FCE's asset encumbrance can be seen in the unaudited 'Pillar 3 Disclosures', which starts on page 139.

The Company holds the right to any surplus cash flows generated by these 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.

Cash available to support the obligations of the SEs as at 31 December 2020 of £330 million (31 December 2019: £307 million) is included in FCE's statement of financial position within Note 9 'Cash and Cash Equivalents'.

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 SEs 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 is 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, and, in some cases, servicer advances of certain amounts.

The table below provides details of the fair value of both the transferred assets that are not derecognised and the associated liabilities:

	Group							
	2020				2019			
As at 31 December	**Public**	**Private**	**Carrying Value**	**Fair Value**	**Public**	**Private**	**Carrying Value**	**Fair Value (Restated)**
	£ mil	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**
Financial assets	3,535	3,013	6,548	6,727	2,539	4,558	7,097	7,228
Financial liabilities	(1,238)	(1,654)	(2,892)	(2,885)	(2,162)	(2,298)	(4,460)	(4,458)
Retained interest	**2,297**	**1,359**	**3,656**	**3,842**	**377**	**2,260**	**2,637**	**2,770**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

22 SECURITISATION AND RELATED FINANCING CONTINUED

Transaction structures

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

Revolving structure capacity	**£ mil**
Balance at 1 January 2020	2,459
Committed capacity matured in 2020	(2,459)
Committed capacity renewed and added in 2020	1,973
Capacity net increase action	-
Exchange differences	62
Balance at 31 December 2020	**2,035**

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 loan 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 loans securitised at the point of non-renewal remain funded, and the related debt is repaid as the loans liquidate.

Private revolving structures at 31 December 2020 totalled £2.0 billion of committed capacity (2019: £2.5 billion) of which £1.4 billion matures during 2021 and the remaining balance having a maturity date of 2022. At 31 December 2020 £1.1 billion (2019: £1.9 billion) of the Private revolving committed capacity was utilised.

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, and credit enhancements not maintained at required levels. None of these securitisation transactions included cross default provisions.

23 DEPOSITS

	Company		Group	
As at 31 December	**2020 £ mil**	**2019 £ mil**	**2020 £ mil**	**2019 £ mil**
Customer deposits	3,592	1,956	3,592	1,956
Dealer deposits	17	14	17	14
Total deposits	**3,609**	**1,970**	**3,609**	**1,970**
Current	2,869	1,692	2,869	1,692
Non-current	740	278	740	278
Total deposits	**3,609**	**1,970**	**3,609**	**1,970**
Total fair value	**3,609**	**1,971**	**3,609**	**1,971**

'Customer deposits' A range of flexible and fixed Term savings products and ISAs are offered. In line with FCE funding requirements, retail deposits were grown in a controlled manner to £3.6 billion by the 2020 year end. Ford Bank GmbH launched retail deposits to customers in December 2020.

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

All deposits are available for use in day to day operations.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

24 OTHER LIABILITIES AND PROVISIONS

Policy

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. Where the effect of the time value of money is material, the provision is discounted.

A 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.

For the purposes of measurement of uncertain tax positions, FCE's unit of measure is by tax authority. Reserves for uncertain income tax positions are established where they are considered "more likely than not" to materialise. 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. More likely than not in this context means a greater than fifty per cent probability assessment that a position taken in a tax return may not ultimately be sustained.

	Company		Group	
As at 31 December	**2020 £ mil**	**2019 £ mil**	**2020 £ mil**	**2019 £ mil**
Other Liabilities and Provisions				
Accrued interest on debt	55	50	55	52
Trade payables	46	56	82	92
Accrued liabilities and deferred income	84	97	113	135
Operating lease subvention	-	-	71	48
Provisions (see table below)	3	3	13	8
Total other liabilities	**188**	**206**	**334**	**335**
Current	188	206	334	335
Non-current	-	-	-	-
Total other liabilities	**188**	**206**	**334**	**335**

	Company Restructuring	Group Restructuring
	2020 £ mil	**2020 £ mil**
Provisions Movement		
At 1 January 2020	3	8
Additions	9	16
Used	(9)	(11)
Unused	-	-
At 31 December 2020	**3**	**13**

'Operating lease subvention' relates to supplements and other support payments from related parties provided for operating leases on vehicles where FCE is the lessor. The amount deferred is recognised in 'Other operating income' over the term of the lease.

'Provisions' relates to restructuring, resulting from various business structure improvements and adjustments announced by the company for which a separation programme was offered. The associated costs were charged to 'Operating expenses'.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

25 ORDINARY SHARES AND SHARE PREMIUM

	Company and Group	
As at 31 December	**2020**	**2019**
	£ mil	**£ mil**
Allotted, called up and fully paid at 1 January and 31 December		
614,384,050 Ordinary shares of £1 each (2019: 614,384,050)	614	614
Share premium at 1 January and 31 December	352	352

Share Capital

There was no change to the issued share capital of FCE during the year. The share premium account is regarded as permanent capital of FCE 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.

The Group's total capital for regulatory purposes is £3.3 billion (2019: £3.1 billion) as described further in the strategic report on page 6 and 10 and in the unaudited 'Pillar 3 Disclosures' on page 139.

Since 1 January 2003 the total issued share capital of FCE has been £614 million comprising of 614,384,050 Ordinary £1 shares. All of the shares of FCE are held by FCSH, an indirect wholly-owned subsidiary of FMCC.

Support agreement

Pursuant to a support agreement between FMCC and FCE dated 30 September 2004. FMCC has agreed with FCE to maintain, directly or indirectly, a controlling interest of not less than 75% of the issued share capital of FCE and to maintain or procure the maintenance of FCE's net worth of not less than $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 a one-month notice to terminate the agreement, in which case it will terminate as of the termination date set on the last preceding extension date. Neither party has provided written notice; therefore, the termination date has been automatically extended by one year to 31 January 2026.

26 DIVIDEND PER SHARE

Dividends declared but not paid are included within the statement of financial position within 'amounts due to parent and related undertakings'.

To declare a dividend the following criteria must be met: (i) Directors propose a dividend and (ii) Annual General Meeting approves the proposal, at which point the dividends become formally declared. Dividends declared following the reporting date are disclosed as a non-adjusting event after the reporting period.

FCE did not declare a dividend to its shareholder FCSH in 2020 and 2019.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

27 RETIREMENT BENEFIT OBLIGATIONS

Employees in all of FCE's locations except Hungary and Poland participate in defined benefit and defined contribution pension plans. The most significant defined benefit arrangements in which FCE participates relate to Ford UK and German pension plans which are accounted for under IAS 19 'Employee Benefits' as defined benefit plans that share risks between entities under common control. These plans are final salary pension plans operated by Ford and FCE's contribution related to its participation in these plans is determined based on an allocation of current service cost; in no case is the contribution payable determined based on an allocation of the total net defined benefit cost as measured under IAS19. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan to FCE. Therefore, in accordance with IAS 19, FCE accounts for such plans as defined contribution plans by recognising a cost equal to any contributions payable for the period. FCE does not recognise the net liabilities or assets associated with the plans in the company or consolidated statement of financial position. Refer to page 17 for additional details on pension risk.

The plans in which FCE participates are subject to the regulatory frameworks of the relevant country, which generally require minimum funding levels. Ford's policy is to contribute annually, at a minimum, amounts required by applicable laws and regulations. All plans in which FCE participates had satisfied the minimum funding requirements at 31 December 2020 including the German plan, which is in deficit of £5.7 billion as at 31 December 2020 (2019: £5.8 billion). Each plan is administered by trustees and pension boards, which have the responsibility for the investment of plan assets. As at 31 December 2020, Ford recognised curtailments in the UK and German plan as a result of restructuring programmes, otherwise there were no material amendments, settlements recognised by Ford. For FCE, there are no unusual entity-specific or plan-specific risks associated with the UK and German pension plans.

(i) UK and German Pension Plans Operated by Ford in which the Company's employees participate

Details of the UK and German plans are set out below, with the information presented for the plans as a whole.

	2020				2019			
	Level 1 £ mil	Level 2 £ mil	Level 3 £ mil	Total £ mil	Level 1 £ mil	Level 2 £ mil	Level 3 £ mil	Total £ mil
Asset category								
Equity								
U.S. Companies	1,084	-	-	1,084	560	-	-	560
International companies	799	85	-	884	463	25	-	488
Total equity	**1,883**	**85**	**-**	**1,968**	**1,023**	**25**	**-**	**1,048**
Fixed income								
U.S. Government	-	26	-	26	165	24	-	189
Non-U.S. Government	-	6,897	-	6,897	-	6,178	-	6,178
Corporate bonds	-	884	21	905	-	854	15	869
Mortgage/other asset-backed	-	194	6	200	-	217	28	245
Commingled funds	-	-	-	-	-	29	-	29
Derivative financial instruments	1	29	(46)	(16)	7	36	(24)	19
Total fixed income	**1**	**8,030**	**(19)**	**8,012**	**172**	**7,338**	**19**	**7,529**
Alternatives								
Hedge funds (a)	-	-	351	351	-	-	341	341
Private equity (b)	-	-	184	184	-	-	182	182
Real estate (c)	-	-	79	79	-	-	85	85
Total alternatives	**-**	**-**	**614**	**614**	**-**	**-**	**608**	**608**
Cash and cash equivalents and repurchase agreements (d)	(1,037)	-	-	(1,037)	(798)	-	-	(798)
Other (e)	(127)	-	3,634	3,507	(204)	-	3,415	3,211
Total assets at fair value	**720**	**8,115**	**4,229**	**13,064**	**193**	**7,363**	**4,042**	**11,598**

(a) Diversified portfolio of hedge funds pursuing strategies broadly classified as equity long/short, event driven, global macro, relative value and multi-strategy.
(b) Investments in private investment funds (funds of funds) pursuing strategies broadly classified as venture capital and buyouts.
(c) *Investment in private property funds.*
(d) Primarily short-term investment funds to provide liquidity to plan investment managers, cash held to pay benefits and repurchase agreements valued at £(1,194) million (2019: £(1,045) million).
(e) Primarily Ford-Werke GmbH ("Ford-Werke") plan assets with insurance contract valued at £3,634 million (2019: £3,415 million) and cash related to net pending security (purchases)/sales and net pending foreign currency purchases/(sales).

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

27 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

The total obligations for the UK and German plans for 2020 were £18 billion (2019 (restated): £17 billion).

Assumptions

The significant actuarial assumptions used by Ford to determine the present value of the defined benefit obligation for the most significant pension plans operated by Ford in which FCE's employees participate are set out below. These are based upon the weighted average of the plans' obligations.

		2020	2019
Principal actuarial assumptions at the reporting date		**%**	**%**
Discount rate		1.0	1.5
Future salary increases		3.0	3.0
Future pension increases		1.8	1.8
Future pension increases (discretionary)		NIL	NIL
The average life expectancy in years of a member retiring at age 65 on the reporting date is as follows		**Years**	**Years**
	Male	21.4	21.2
	Female	24.0	23.9
The average life expectancy in years of a member retiring at age 65, 20 years after the reporting date is as follows	Male	23.4	23.3
	Female	25.8	25.7

(i) Retirement plan costs

FCE's total retirement plan costs, including contributions to Ford-sponsored plans, expense incurred for FCE's defined benefit plans and contributions to defined contribution plans was £21 million (2019: £21 million). Contributions are expected to stay at similar levels in 2021.

(ii) Defined benefit plans operated by the Company

FCE operates defined benefit plans in Austria, France, and Spain. The total number of participants in 2020 was 73, (2019: 126) with total expenses of £525 thousand, (2019: £453 thousand), and a total deficit of obligations to assets of £0.9 million (2019: £1.1 million).

(iii) Defined contributions plans

	Company		Group	
As at 31 December	**2020 £ mil**	**2019 £ mil**	**2020 £ mil**	**2019 £ mil**
Total contributions recognised in year	3	3	3	3

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

28 CONTINGENT LIABILITIES, FINANCIAL GUARANTEES AND COMMITMENTS

Policy

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.

Litigation and other claims

Certain legal actions and claims are pending or may be instituted or asserted in the future against the Group concerning finance and other contractual relationships. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. The Group 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 provisions have not been established could be decided unfavourably to the Group and could require the Group to pay damages or make other expenditures in amounts or a range of amounts that cannot be estimated at 31 December 2020.

The Group 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.

On October 5, 2018, FCE received a notice from the Italian Competition Authority (the "ICA") concerning an alleged violation of Article 101 of the Treaty on the Functioning of the European Union. The ICA alleges that FCE and other parties engaged in anti-competitive practices in relation to the automotive finance market in Italy. On January 9, 2019, FCE received a decision from the ICA, which included an assessment of a fine against FCE in the amount of about €42 million (£38 million). On March 8, 2019, FCE appealed the decision and the fine to the Italian administrative court, and on November 24, 2020, the Italian administrative court ruled in favour of FCE. On December 23, 2020, the ICA filed an appeal of the Italian administrative court's decision to the Italian Council of State.

Guarantees

Financial guarantee contracts require the issuer of the guarantee to make specified payments under the contract to reimburse the beneficiary of the guarantee for a loss the beneficiary incurs because a specified party fails to fulfil stipulated obligations when due, in accordance with the terms of the original agreement.

	Company		Group	
As at 31 December	**2020 £ mil**	**2019 £ mil**	**2020 £ mil**	**2019 £ mil**
Guarantees provided on behalf of Ford:				
Spanish Ministry of Industry and regional authorities	17	3	17	3
Customs authorities, revenue commissioners and agencies	25	30	25	30
Other guarantees	1	2	1	2
Total guarantees provided on behalf of Ford	**43**	**35**	**43**	**35**
Other guarantees provided to third parties	1	1	-	-
Total guarantees	**44**	**36**	**43**	**35**

'Total 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 payable by Ford for the guarantee.

'Spanish Ministry of Industry and regional authorities' relates to loans and grants provided 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 and other taxes provided to various European customs and tax authorities.

28 CONTINGENT LIABILITIES, FINANCIAL GUARANTEES AND COMMITMENTS CONTINUED

Commitments

FCE makes offers to lend to retail customers to purchase new and used vehicles and in a limited number of markets, these may not be cancelled unconditionally. As at 31 December 2020, these non-cancellable offers totalled £387 million (2019 restated: totalled £325 million).

29 CREDIT RISK

As a provider of automotive financial products, FCE's primary source of credit risk is the possibility of loss from a customer's or dealer's failure to make payments according to contractual terms. The Company could also incur a credit loss if the counterparty to an investment, interest rate or foreign currency derivative with FCE defaults.

29a) LOANS AND ADVANCES

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

Retail and Finance Lease

When originating retail and finance leases, FCE uses a proprietary scoring system that measures the credit quality of the related loan using several factors such as credit bureau information, consumer credit risk scores, customer characteristics, and contract characteristics. At origination, FCE's scoring process designates the credit quality of a loan as either 'good' or 'marginal', where marginal refers to lower credit quality.

FCE offered various programmes to provide relief to its customers impacted by COVID-19. These programmes included payment extensions and payment deferrals. These concessions were generally not considered as forborne in line with PRA/FCA guidance.

As of December 31, 2020, FCE has received payments on nearly all the payment extensions offered to its customers. The volume of new payment extensions being granted has returned to pre- COVID-19 levels as FCE continues to grant payment extensions under its normal business practices. 33,000 COVID-19 concessions have been granted in 2020 in its five largest markets, most of which have now expired, with the majority of customers now back onto their payment schedule, leading to no deterioration in the past due volumes. In one of the major markets, payment deferrals for certain customer groups have been prolonged well into 2021 by a governmental decree.

As at 31 December 2020, the majority of FCE's outstanding retail and finance leases are performing and only 0.5% (2019: 0.4%) (2020: £51 million and 2019: £44 million) of the total retail and finance lease consumer and commercial portfolio was either past due or credit impaired and designated as marginal credit quality.

Credit quality ratings are based on its aging analysis. Refer to the aging table below for retail and finance lease receivables credit quality ratings:

- Retail I - current to 60 days past due
- Retail II - 61 to 120 days past due and in intensified collection status
- Retail III - greater than 120 days past due and for which the uncollectible portion of the receivables has already been written off, as measured using the fair value of collateral less costs to sell

As explained in Note 13 'Allowance for Expected Credit Losses', under IFRS 9 credit loss allowances are measured on each reporting date according to a three-stage expected credit loss (ECL) impairment model. The ECL model calculates the expected credit loss for every expected forward period (monthly) in its portfolio's lifetime. The sum of the expected credit losses for the first 12 forward periods represents the 12 Month expected loss (Stage 1); the sum of the expected credit losses for all forward periods represents the lifetime expected loss (Stage 2 and 3).

29 CREDIT RISK CONTINUED

The aging analysis of FCE's retail and finance leases balances for the year ended December 31, 2020 was as follows:

As at 31 December	2020			2019 (Restated)		
	12-month	Lifetime	Total	12-month	Lifetime	Total
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
Gross Carrying Amount						
Current (a)	9,843	1,025	10,868	10,693	329	11,022
31 - 60 days past due	-	30	30	-	30	30
61 - 90 days past due	-	13	13	-	9	9
91 - 120 days past due	-	8	8	-	5	5
Greater than 120 days past due	-	8	8	-	2	2
Total retail receivables	**9,843**	**1,084**	**10,927**	**10,693**	**375**	**11,068**

(a) For retail and finance leases, FCE considers receivables current where they are not past due, or where contractual payments are less than 31 days past the due date.

The breakdown of the lifetime gross carrying value by stage is: Stage 2 £990 million (2019: £273 million) and Stage 3 £94 million (2019: £102 million), and stage 3 makes up 0.9% of the whole retail and finance lease portfolio. Stage 3 includes receivables that are more than 90 days past due, non-performing forborne exposures and some contracts in a probation as explained in Note 13 'Allowance for Expected Credit Losses', these are considered as credit impaired.

Wholesale

FCE uses a proprietary model to assign each dealer a risk rating. The Financial model considers financial information, including profitability, capital and liquidity at a point in time, as well as other performance factors. This is supplemented by the Judgemental methodology 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, business/sector risk and contingent liabilities. The model and methodology 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 predictability.

FCE have granted around £2 billion in COVID-19 concessions as at 31st December 2020. Blanket concessions have been provided in several markets as well as local decree being taken advantage of by dealers in several other markets. In the majority of the markets that FCE operates in, concessions granted during 2020 have expired and have not been renewed. In selected markets, concessions have been prolonged into 2021. Refer to the Wholesale Credit Risk Management section on page 16 which provides details of the actions taken in response to COVID-19.

FCE has a wholesale counterparty limit policy based on levels of exposure and risk ratings. The largest concentrations are monitored daily and reports by values are prepared monthly and are regularly reviewed at the Credit Policy and Credit Risk Committee and at the Risk Committee of the Board.

For monitoring and control purposes, each dealer is assigned a Treatment of Account (TOA) rating based on the worse of the Financial and Judgemental Ratings. These have been grouped in the table below to provide an overview of FCE's dealer portfolio risk mix. Dealers are assigned to one of four Groups according to risk ratings as follows:

- Group I - strong to superior financial metrics
- Group II - fair to favourable financial metrics
- Group III - marginal to weak financial metrics
- Group IV - poor financial metrics including dealers classified as uncollectible

29 CREDIT RISK CONTINUED

The credit quality analysis of FCE's dealer financing receivables for the year ended December 31, 2020 was as follows:

As at 31 December

	2020 £ mil	2019 £ mil
Group I	1,856	3,208
Group II	2,166	2,310
Group III	837	1,285
Group IV	64	16
Total dealer financing receivables	**4,923**	**6,819**

As described above TOA ratings Group I and II are higher quality receivables and make up 82% of the wholesale portfolio in 2020 (2019: 81%). Out of the total gross carrying value £94 million (2019(restated): £0 million) is considered stage 2 and £168 million (2019: £86 million) is considered Stage 3. Stage 3 represents 3.4% of the wholesale portfolio and includes nonperforming wholesale forborne exposures and Group IV dealers. There have been no significant increases in credit risk since origination for the remainder of the wholesale portfolio given the short-term nature of the lending.

Collateral

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 2020 is £15,804 million (2019: £17,866 million) being the value of loans and advances to customers as disclosed in Note 12 'Loans and Advances to Customers'.

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

Collateral figures are estimated based on the current market valuation of the underlying assets for the UK and Germany, utilising reputable external trade guide data and then taking the lower of either the outstanding balance or the trade guide value to calculate a collateral percentage that is applied to the respective portfolio. For the other markets, historical recovery experience is used which takes into account the characteristics of each market and the collections strategies employed. The internal measure of past recovery experience relates predominantly to loss accounts which is, by definition, a conservative approach with the recovery percentage being applied to the whole portfolio for each market. The only exception to the above approaches is where the market characteristics mean that retention of title or similar interest is not typically retained by FCE, in these cases, a nil collateral value is assumed. As at 31 December 2020, the value of collateral is £6,046 million (2019: £6,329 million) in relation to retail and finance lease and £4,685 million for wholesale (2019: £6,476 million).

The value of the FCE's retail, finance lease and wholesale receivables considered to be credit impaired at the reporting date is £262 million (2019: £188 million) and the amount of collateral held on credit impaired receivables at the 31st December 2020 is *£223 million (2019: £157 million).*

FCE do not have any loans or finance leases for which a nil ECL is recognised because of collateral.

Forbearance and Loan Modifications

Where FCE agrees repayment concessions with a customer, as a direct result of the customer contacting FCE due to facing financial difficulties and requesting assistance, which are not part of the COVID-19 assistance programmes, the contract is considered a forborne exposure. The retail and finance lease forborne exposures as at 31st December 2020 is £119 million (2019: £130 million), which is just over 1% (2019: 1%) of the retail and finance lease portfolio. Examples of such concessions include payment holidays and reduced payments for an agreed term, with the expectation that the customer will settle the loan in full. An exposure is forborne regardless of whether the customer's account was current or past due at the point the concession was granted. Days past due for forborne retail customers are determined based on the revised concession terms.

Modifications of wholesale receivables represent accounts with dealers that have weak or poor financial metrics or dealer financing that have been modified in reorganisation proceedings. The wholesale forborne exposures as at 31 December 2020 is £180 million (2019: £118 million), which is 4% (2019: 2%) of the total wholesale portfolio.

29 CREDIT RISK CONTINUED

The total net modification gain (or loss) for the years ended December 31, 2020, and 2019 is immaterial due to the types of concessions offered as described above.

As at 31 December	2020 £ mil	2019 £ mil
Retail		
Performing Exposures (a)	41	37
Non-performing Exposures (b)	78	93
Total Retail Forborne Exposures	**119**	**130**
Wholesale		
Performing Exposures (a)	23	44
Non-performing Exposures (b)	157	74
Total Wholesale Forborne Exposures	**180**	**118**

(a) Performing exposures are receivables which are not considered to be non-performing and these are reported under IFRS 9 stage 2 for credit loss provisioning

(b) Non-performing exposures are those that satisfy any of the following criteria:
   - (i) material exposures which are more than 90 days past due
   - (ii) when the customer is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or of the number of days past due
   - (iii) Exposures that are flagged as forborne and which have not been performing i.e. not all payments have been received in full and on time for more than 12 months from the date that the exposure was flagged as forborne

29b) FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

Derivative financial instruments

The majority of FCE's derivative related activities are transacted with financial institutions that have an investment grade rating. Also, FCE transacts with certain Ford related parties, which are non-rated entities. FCE sets limits for its exposures to financial institutions that are based on the credit ratings of the institutions.

The aggregate fair value of non-cleared derivative instruments in asset positions at 31 December 2020 is £72 million (2019: £124 million), representing the maximum potential loss at that date if all counterparties failed to perform as contracted. The maximum potential loss is reduced through master agreements, which would generally allow for netting of certain exposures. Refer to Note 10 'Derivative Financial Instruments and Hedging Activities' for further details.

For details on the valuation of financial assets and liabilities at fair value, refer to Note 10 'Derivative Financial Instruments and Hedging Activities'.

30 VEHICLE RESIDUAL VALUES

The following vehicle residual values, for which FCE holds the primary residual value risk, relating to retail loans, finance lease and operating leases are included in 'Loans and advances to customers' and 'Property and equipment' respectively in the statement of financial position. The table below presents Group and Company combined figures.

Group and Company **As at 31 December**	**Retail/Finance Lease residual values**	**Operating leases residual values**	**2020**	**2019**
	£ mil	**£ mil**	**£ mil**	**£ mil**
Year in which the residual value will be recovered				
Within 1 year	552	237	789	672
Between 1-2 years	809	-	809	831
Between 2-5 years	1,130	-	1,130	1,196
More than 5 years	-	-	-	-
Total residual values	**2,491**	**237**	**2,728**	**2,699**

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.

Residual value provisions are maintained to reflect the level of vehicle residual value risk within the financial statements. For further details refer to Note 14 'Provision for Vehicle Residual Value Losses'.

Retail and Finance Lease residual values

The retail and finance lease residual value figures included in the table above assume that all 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. In the UK market, the GMFV is referred to as the 'Optional Final Payment'. FCE's normal policy is that the GMFV must be below the future market value and this buffer is increased 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 0.35% (2019: 0.6%) of the maturing portfolio.

Operating lease residual values

All operating lease vehicles are subject to return at the end of the lease period unlike retail plans. The most significant operating lease portfolio remains in Germany which is the main source of FCE's operating lease residual value risk. Due to an arrangement with Ford, under which Ford receives the majority of residual value gains and losses arising, vehicle residual value risk from FCE's operating lease portfolio is significantly reduced.

Sensitivity analysis

If the residual values of FCE's existing portfolio of retail and finance lease contracts, as at 31 December 2020, due to mature in 2021, were to reduce by 1% of original list price below the current forecast values under a stressed scenario, it is estimated that the return rate could increase to 4.5% and have an adverse profit impact to the Company of approximately £3.1 million (2019: £2.8 million under the equivalent stressed scenario). In the event of a 5% reduction, this would increase the forecast return rate to 8.6% and have an incremental adverse profit impact of £12.7 million (total £15.8 million). Assuming a sustained downturn, the 5% reduction to list price below current forecast values applied to existing retail and finance leases due to mature in 2022, would have an additional estimated impact of £13.9 million.
A prolonged COVID-19 will create economic uncertainty and higher unemployment that could negatively impact on UK voluntary terminations. FCE's residual value risk could increase significantly if used vehicle prices were to drop below current stress scenarios.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

31 MARKET RISK

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

Derivatives Policy

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

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
- Clearing of certain derivatives with central clearing counterparties as required through the EMIR regulations
- Posting of collateral with counterparty where derivatives are not centrally cleared
- Established exposure limits (including cash deposits) with counterparties for non-cleared derivatives
- Treasury employees' remuneration not being linked to individuals' trading performance

Derivatives Control

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

The key derivative controls are:

- Regular management reviews of policies, positions and planned actions
- *Transactional controls including segregation of duties, approval authorities, competitive quotes and confirmation* procedures
- Regular review of portfolio mark to market valuations and potential future exposures
- Monitoring of counterparty creditworthiness
- Internal audits to evaluate controls and adherence to policies
- Reporting all derivatives to ESMA approved repository
- Regular portfolio reconciliations with all counterparties
- Timely confirmation of all Over The Counter (OTC) derivatives

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
32a)	Investment and funding in foreign currencies	Sensitivity to change in foreign currency exchange rates	- Cross currency interest rate swaps - Foreign currency forward contracts
32b)	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
	Funding of assets at indices different from liabilities	Sensitivity of assets being priced on indices with different tenors to liabilities	- Basis Swaps

32 a) CURRENCY RISK

In addition to the UK the Company operates active branches in 8 other European countries and has operating subsidiaries in Czech Republic, Germany, Hungary and Switzerland which provide a variety of wholesale and retail financing (see Note 20 'Investments in Other Entities'). 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 branch in Poland and subsidiaries in the Czech Republic, Hungary and Switzerland.

The main operating currencies are therefore Euro and Sterling. As FCE presents its Group and Company 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 such investments is recognised in equity through the translation reserve. FCE's policy is to hold equity in its overseas branches and subsidiaries in order to hedge its capital ratios against movements in exchange rates.

FCE uses Sterling as its presentation currency in its 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 loans and advances 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 loan.

Due to the low levels of net transactional currency exposure, FCE's sensitivity to changes in currency exchange rates is not significant in terms of gains and losses recognised in the statement of profit or loss.

The net assets of foreign operations which give rise to the unrealised gain or losses recognised in FCE's foreign currency translation reserves are detailed below with the associated reserves.

	Company		Group	
As at 31 December	**2020**	**2019**	**2020**	**2019**
	£ mil	**£ mil**	**£ mil**	**£ mil**
Net assets of foreign operations				
Euro	1,032	894	1,892	1,654
Other non-Euro currencies	1	5	100	103
Total	**1,033**	**899**	**1,992**	**1,757**

	Company		Group	
As at 31 December	**2020**	**2019**	**2020**	**2019**
	£ mil	**£ mil**	**£ mil**	**£ mil**
Foreign currency translation reserve				
Euro	391	337	402	306
Other non-Euro currencies	32	38	58	60
Total	**423**	**375**	**460**	**366**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

32 b) INTEREST RATE RISK

FCE's asset base consists primarily of fixed-rate retail instalment sale agreements with an average life of approximately 3 years, and floating rate wholesale financing loans with an average life of approximately 2 months. Funding sources consist primarily of unsecured and intercompany debt, public and private securitisation and retail deposits. It is FCE's policy to execute interest rate swaps to change the interest rate characteristics of the debt to match, within a tolerance range, the interest rate characteristics of FCE's assets. This matching policy seeks to maintain margins and reduce profit volatility.

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

The FCE Asset and Liability Management Committee (ALCO) reviews re-pricing gaps and basis gaps monthly and the interest rate swaps entered into each month to maintain exposure within the approved thresholds.

To provide a quantitative measure of the sensitivity of pre-tax net interest income to changes in interest rates, FCE uses interest rate scenarios. These scenarios assume a hypothetical, instantaneous increase or decrease in interest rates of one hundred basis points across all maturities (a 'parallel shift'), impacting both assets and liabilities, as well as a base case that assumes that interest rates remain constant at existing levels. These interest rate scenarios do not represent an expectation of future interest rate movements. The differences in pre-tax net interest income between these scenarios and the base case over a twelve-month period represent an estimate of the sensitivity of FCE's pre-tax net interest income. The sensitivity of interest income to changes in interest rates in the 12 months following the year ended 31 December 2020 and 2019 is detailed below.

The sensitivity analysis presented below 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 below.

	Group	
	2020 £ mil	**2019 £ mil**
Net interest income impact of 100 basis point rate change		
Euro	6	8
Sterling	9	10
Other	1	-
Increase	**16**	**18**
Euro	(6)	(8)
Sterling	(9)	(10)
Other	(1)	-
Decrease	**(16)**	**(18)**

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.

33 LIQUIDITY RISK

Liquidity risk is the risk associated with the possibility of being unable to meet present and future financial obligations as they become due.

For further details on FCE's strategy and process to mitigate liquidity risk, please refer to the strategic report on page 18.

Basis of liquidity risk analysis

The tables within this note analyses gross undiscounted contractual cash flows from assets and liabilities, with the exception of derivative financial instruments which are settled net, into relevant maturity groupings based on the criteria detailed in the table below.

The 'Net liquidity gap excluding unrecognised items' is reported excluding behavioural adjustments for customer early settlements.

'Unrecognised items' include available for use unsecured credit facilities, available for use committed securitisation capacity and callable guarantees. Refer to Note 28 'Contingent liabilities' for further details on guarantees.

The figures assume that the inflows related to retail, leasing and wholesale financing plans and the outflows related to the repayment of debt each occur on the contractual due dates. Outflows relating to Retail Deposits are based on their earliest possible contractual due dates. Moreover, balances from fixed-term ISA accounts are reported as on demand according to the earliest date that FCE could be required to transfer the balance to another provider. However, in practice, their behavioural maturity is usually in line with their term. 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 cash equivalents' as follows (Note 9): • 'Cash and cash equivalents' classified by contractual maturity date.
B	Customer payments are assumed to occur on the latest contractual date and no behavioural adjustments are made for customer early settlements: • Retail finance and lease contracts and operating lease vehicles (reported within Note 15 'Property and equipment') generally require customers to pay equal monthly instalments over the life of the contract. • Wholesale financing for new and used vehicles held in dealers' inventory - A bullet repayment schedule is utilised as the principal is typically repaid in one lump sum at the end of the financing period.
C	Classified based on the earliest possible contractual due date.
D	Classified according to the remaining period to maturity, including 'Restricted Cash' which are assumed to be amounts typically not available for use in day to day operations classified based on the latest possible repayment date.
E	Forward foreign exchange contracts, cross currency interest rate swaps and interest rate swaps are presented as settled on a net basis.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

33 LIQUIDITY RISK CONTINUED

Company **As at 31 December 2020**		**0-3 Months £ mil**	**4-12 Months £ mil**	**1-5 Years £ mil**	**5+ Years £ mil**	**Total £ mil**
Assets	**Note**					
Cash and cash equivalents	A	1,143	-	-	-	1,143
Derivative financial instruments	E	10	52	28	-	90
- Retail/Lease		701	2,260	4,719	0	7,680
- Wholesale		690	2,711	62	-	3,463
Loans and advances to customers	B	1,391	4,971	4,781	0	11,143
Other assets	D	716	340	2,094	89	3,239
Total asset inflows		**3,260**	**5,363**	**6,903**	**89**	**15,615**
Liabilities						
Financial Liabilities	C	958	2,634	5,907	250	9,749
Deposits	C	2,589	621	444	-	3,654
Derivative financial instruments	E	6	18	10	-	34
Other liabilities	D	42	17	-	-	59
Total liability outflows		**3,595**	**3,290**	**6,361**	**250**	**13,496**
Net liquidity gap excluding unrecognised items		**(335)**	**2,073**	**542**	**(161)**	**2,119**
Cumulative net liquidity gap excluding unrecognised items		**(335)**	**1,738**	**2,280**	**2,119**	

Company **As at 31 December 2019**		**0-3 Months £ mil**	**4-12 Months £ mil**	**1-5 Years £ mil**	**5+ Years £ mil**	**Total £ mil**
Assets	**Note**					
Cash and cash equivalents	A	741	-	-	-	741
Derivative financial instruments	E	8	62	64	-	134
- Retail/Lease		736	2,347	5,245	-	8,328
- Wholesale		821	3,904	52	-	4,777
Loans and advances to customers	B	1,557	6,251	5,297	-	13,105
Operating leases	B	-	-	-	-	-
Other assets*	D	349	26	2,463	51	2,889
Total asset inflows		**2,655**	**6,339**	**7,824**	**51**	**16,869**
Liabilities						
Financial Liabilities	C	574	3,225	7,755	1,296	12,850
Deposits	C	1,389	457	151	-	1,997
Derivative financial instruments	E	10	12	11	-	33
Other liabilities	D	58	3	26	-	87
Total liability outflows		**2,031**	**3,697**	**7,943**	**1,296**	**14,967**
Net liquidity gap excluding unrecognised items		**624**	**2,642**	**(119)**	**(1,245)**	**1,902**
Cumulative net liquidity gap excluding unrecognised items		**624**	**3,266**	**3,147**	**1,902**	

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

33 LIQUIDITY RISK CONTINUED

Group **As at 31 December 2020**		**0-3 Months £ mil**	**4-12 Months £ mil**	**1-5 Years £ mil**	**5+ Years £ mil**	**Total £ mil**
Assets	**Note**					
Cash and cash equivalents	A	2,048	-	-	-	2,048
Derivative financial instruments	E	11	53	31	-	95
- Retail/Lease		985	3,156	7,453	4	11,598
- Wholesale		684	4,251	55	-	4,990
Loans and advances to customers	B	1,669	7,407	7,508	4	16,588
Operating leases	B	105	206	-	-	311
Other assets	D	713	40	45	115	913
Total asset inflows		**4,546**	**7,706**	**7,584**	**119**	**19,955**
Liabilities						
Financial Liabilities	C	1,288	3,707	7,497	375	12,867
Deposits	C	2,589	621	444	-	3,654
Derivative financial instruments	E	8	23	14	-	45
Other liabilities	D	86	24	-	-	110
Total liability outflows		**3,971**	**4,375**	**7,955**	**375**	**16,676**
Net liquidity gap excluding unrecognised items		**575**	**3,331**	**(371)**	**(256)**	**3,279**
Cumulative net liquidity gap excluding unrecognised items		**575**	**3,906**	**3,535**	**3,279**	

Group **As at 31 December 2019**		**0-3 Months £ mil**	**4-12 Months £ mil**	**1-5 Years £ mil**	**5+ Years £ mil**	**Total £ mil**
Assets	**Note**					
Cash and cash equivalents	A	1,453	-	-	-	1,453
Derivative financial instruments	E	8	63	69	-	140
- Retail/Lease		932	2,975	7,863	6	11,776
- Wholesale		883	5,973	51	-	6,907
Loans and advances to customers	B	1,815	8,948	7,914	6	18,683
Operating leases	B	151	149	-	-	300
Other assets	D	201	26	40	57	324
Total asset inflows		**3,628**	**9,186**	**8,023**	**63**	**20,900**
Liabilities						
Financial Liabilities	C	940	3,680	9,835	1,414	15,869
Deposits	C	1,389	457	151	-	1,997
Derivative financial instruments	E	11	16	14	-	41
Other liabilities	D	98	6	26	-	130
Total liability outflows		**2,438**	**4,159**	**10,026**	**1,414**	**18,037**
Net liquidity gap excluding unrecognised items		**1,190**	**5,027**	**(2,003)**	**(1,351)**	**2,863**
Cumulative net liquidity gap excluding unrecognised items		**1,190**	**6,217**	**4,214**	**2,863**	

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

33 LIQUIDITY RISK CONTINUED

Available for use credit facilities

Unsecured credit facilities granted by financial institutions to the Group and Company
At 31 December 2020 the Group had £1,074.3 million (2019: £1,023.9 million) contractually committed unsecured credit facilities with financial institutions, of which £64.1 million (2019: £189.5 million) was utilised. The remaining undrawn amounts totalling £1010.2 million (2019: £834.4 million) are available for use. The Company had £780 million (2019: £745 million) contractually committed unsecured credit facilities with financial institutions, of which £0 (2019: £120 million) was utilised.

Unsecured credit facilities granted by FMCC to the Group and Company
A €1.5 billion (2019: €1.5 billion) short-term revolving facility has been provided by FMCC to the Group which matures on 30 November 2021 or earlier upon 45 days' notice from FMCC. As at 31 December 2020 no amounts had been drawn under this facility (2019: nil).

Available committed securitisation capacity to the Group
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. At 31 December 2020, Group £549 million (2019: £530 million) of private revolving committed securitisation capacity was available. For Company £485 million (2019: £40 million) of private revolving committed securitisation capacity was available.

Central Bank Funding to the Group
FCE holds senior interest in some of its public term securitisation structure as eligible collateral to access ECB Open Market Operations. At 31 December 2020 the Group had £93 million available liquidity (2019: £0).

Liquid assets of the Group and Company

'Cash and cash equivalents' held by Group is primarily deposits eligible under the Regulatory definition of High Quality Liquid Assets, £1,554 million (2019: £1,005 million). The Company holds deposits eligible under the Regulatory definition of High Quality Liquid Assets of £1,068 million (2019: 660 million) and Ford Bank GmbH holds £486 million (2019: 345 million). This cash is held to meet both regulatory requirements and to provide liquidity for short-term funding needs and flexibility in the use of other funding programmes.

Other assets of the Group and Company

Included within Other Assets for the Company are £2,513 million (2019: £2,639 million) notes receivable from affiliates. These eliminate in Group view

34 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 subsidiaries (discussed in Note 27 'Retirement Benefit Obligations'); the Company has a support agreement with Ford Credit in regard to Shareholders' funds (detailed in Note 25 'Ordinary Shares and Share Premium').

There have been no significant changes in transactions with related parties in the period to 31 December 2020. For further details refer to the following Company and Group disclosures.

Related parties

FCE has related party transactions with the following categories, described below:

Parent undertakings - this includes FCSH, Ford Credit and Ford. For further information refer to Note 37 '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 to 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, lease and wholesale finance plans
- Guarantees provided on behalf of other related parties of which further details can be found within Note 28 'Contingent liabilities and financial guarantees'
- Guarantees received from other related parties includes primarily guarantees for future residual value gain or losses relating to certain operating lease vehicles and also includes guarantees for certain wholesale vehicle finance plans

Due to an arrangement with Ford relating to FCE's operating lease portfolio, under which Ford indemnifies FCE for the majority of residual value losses and receives the benefit of the majority of residual value gains, a net receipt of £9 million was received from Ford in the period (2019: £14 million net receipt from Ford).

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

34 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	
	2020 £ mil	2019 £ mil	2020 £ mil	2019 £ mil	2020 £ mil	2019 £ mil
Accounts receivable						
Accounts receivable at 1 January	30	34	9	1	46	52
Additions to accounts receivable during the year	7,707	7,892	11	74	2,711	5,373
Repayments during the year (Footnote 3)	(7,709)	(7,896)	(19)	(66)	(2,572)	(5,379)
Accounts receivable at 31 December	**28**	**30**	**1**	**9**	**185**	**46**
Loans						
Loans outstanding at 1 January	2,639	2,406	-	-	645	512
Loans issued during the year	2,599	2,994	-	-	3,762	4,052
Loan repayments during the year (Footnote 3)	(2,725)	(2,761)	-	-	(3,982)	(3,919)
Loans outstanding at 31 December	**2,513**	**2,639**	**-**	**-**	**425**	**645**
Investment in Group undertakings (Note 20)						
Cost at 1 January	840	755	-	-	-	4
Additional investments during the year	2	102	-	-	-	-
Reduction of investments during the year	-	(17)	-	-	-	(4)
Cost at 31 December	**842**	**840**	**-**	**-**	**-**	**-**
Accounts payable and accrued interest						
Accounts payable at 1 January	19	33	12	8	88	133
Additions to accounts payable during the year	2,129	1,810	120	110	28,176	46,202
Repayments during the year (Footnote 3)	(2,130)	(1,824)	(125)	(106)	(28,177)	(46,247)
Accounts payable at 31 December	**18**	**19**	**7**	**12**	**87**	**88**
Senior debt and subordinated loans						
Senior debt and subordinated loans at 1 January	-	-	4,344	4,006	15	78
Received during the year	-	-	1,364	4,516	16	43
Repaid during the year (Footnote 3)	-	-	(668)	(4,178)	(15)	(106)
Senior debt and subordinated loans at 31 December	**-**	**-**	**5,040**	**4,344**	**16**	**15**
Net cash proceeds from the sale of receivables						
Net cash proceeds from the sale of receivables at 1 January	2,042	2,515	-	-	-	-
Additions during the year	4,263	11,709	-	-	-	-
Repayments during the year	(5,776)	(12,182)	-	-	-	-
Net cash proceeds from the sale of receivables at 31 December	**529**	**2,042**	**-**	**-**	**-**	**-**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

34 RELATED PARTY TRANSACTIONS CONTINUED

Company	Subsidiaries of the Company		Parent undertakings		Entities under common control	
	2020 £ mil	2019 £ mil	2020 £ mil	2019 £ mil	2020 £ mil	2019 £ mil
Revenue						
Interest supplements earned on loans and advances	-	-	-	-	272	338
Interest income related parties	26	20	-	-	10	7
Supplements relating to operating leases	-	-	-	-	2	-
Expense						
Interest expense	-	-	75	56	-	-
Service fees paid/(received) (Footnote 1)	(17)	(14)	21	12	4	-
Guarantees						
Guarantees provided (Note 28)	-	-	-	-	43	35
Guarantees received	-	-	-	-	-	-
Dividends received	7	6	-	-	-	-
Derivatives						
Derivatives year end positive fair value	-	-	-	-	-	-
Derivatives year end negative fair value	-	-	-	-	1	6

Group	Parent undertakings		Entities under common control	
	2020 £ mil	2019 £ mil	2020 £ mil	2019 £ mil
Accounts receivable				
Accounts receivable at 1 January	9	1	88	106
Additions to accounts receivable during the year	11	74	4,238	7,377
Repayments during the year (Footnote 3)	(19)	(66)	(4,023)	(7,395)
Accounts receivable at 31 December	**1**	**9**	**303**	**88**
Loans receivable				
Loans receivable at 1 January	-	-	645	512
Issued during the year	-	-	3,762	4,052
Repayments during the year (Footnote 3)	-	-	(3,982)	(3,919)
Loans receivable at 31 December	**-**	**-**	**425**	**645**
Investment in jointly controlled entity				
Investment at 1 January	-	-	-	2
Reduction of investments during the year	-	-	-	(2)
Investment at 31 December	**-**	**-**	**-**	**-**
Accounts payable and accrued interest				
Accounts payable at 1 January	12	8	124	162
Additions during the year	124	117	37,015	57,495
Repayments during the year (Footnote 3)	(123)	(113)	(37,017)	(57,533)
Accounts payable at 31 December	**13**	**12**	**122**	**124**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

34 RELATED PARTY TRANSACTIONS CONTINUED

Group	Parent undertakings		Entities under common control	
	2020 £ mil	**2019 £ mil**	**2020 £ mil**	**2019 £ mil**
Senior debt and subordinated loans				
Senior debt and subordinated loans at 1 January	4,973	4,449	15	78
Received during the year	1,363	4,516	16	43
Repaid during the year (Footnote 3)	(633)	(3,992)	(15)	(106)
Senior debt and subordinated loans at 31 December	**5,703**	**4,973**	**16**	**15**
Revenue				
Interest supplements earned on loans and advances	-	-	387	448
Interest income related parties	-	-	10	8
Supplements relating to operating leases	-	-	195	370
Expense				
Interest expense	88	63	-	-
Service fees paid (received) (Footnote 1)	21	13	4	1
Guarantees				
Guarantees provided (Note 28)	-	-	43	35
Guarantees received	-	-	-	-
Derivatives				
Derivatives year end positive fair value	-	-	-	-
Derivatives year end negative fair value	-	-	1	6

Footnotes:

1) **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'.
2) **Group tax relief** are losses claimed from related UK companies
3) **Repayments** include both repayments and the effect of exchange rate changes during the year.

35 SEGMENT REPORTING

Policy

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.

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

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

35a) PERFORMANCE MEASUREMENT FIGURES

	UK 2020 $ mil	Germany 2020 $ mil	Italy 2020 $ mil	Spain 2020 $ mil	France 2020 $ mil	Central / Other 2020 $ mil	Total 2020 $ mil
Market income	324	343	153	56	55	84	**1,015**
Borrowing costs	(149)	(72)	(51)	(17)	(19)	(18)	**(326)**
Operating expenses	(89)	(119)	(50)	(29)	(33)	(49)	**(369)**
Expected credit losses (a)	(15)	(13)	(21)	(6)	(3)	(2)	**(60)**
All other	6	(34)	-	-	1	(1)	**(28)**
Profit before tax (PBT)	**77**	**105**	**31**	**4**	**1**	**14**	**232**
Net receivables	7,272	7,336	3,842	1,167	1,422	1,560	**22,599**

	UK 2019 $ mil	Germany 2019 $ mil	Italy 2019 $ mil	Spain 2019 $ mil	France 2019 $ mil	Central / Other 2019 $ mil	Total 2019 $ mil
Market income	367	379	150	57	75	99	**1,127**
Borrowing costs	(159)	(56)	(33)	(13)	(15)	(21)	**(297)**
Operating expenses	(81)	(110)	(48)	(24)	(25)	(72)	**(360)**
Impairment losses (a)	(7)	(8)	(3)	(4)	-	(1)	**(23)**
All other	(5)	(81)	(1)	-	1	-	**(86)**
Profit before tax (PBT)	**115**	**124**	**65**	**16**	**36**	**5**	**361**
Net receivables	8,678	7,869	3,572	1,242	1,480	1,697	**24,538**

(a) In 2020, under US Generally Accepted Accounting Practice (GAAP), implementation of Current Expected Credit Loss (CECL) standard

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, Germany, Italy, Spain and France) is separately reported. The performance of the five major markets ('Reportable Segments') constitute over 93% of external revenues and have been reported separately above, 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.

'Central/Other' represents operations not considered as a major geographical market and individually contributing less than 10% of external revenue. It includes FCE's branches and subsidiaries in Austria, Czech Republic, Hungary, Ireland, Poland, Portugal and Switzerland. In addition, 'Central/Other' includes WWTF and eliminations of intra and inter-company transactions.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

35 SEGMENT REPORTING CONTINUED

Segmental data is based on the consolidated statement of profit and loss and other comprehensive income and statement of financial position as reported to the Executive Committee ('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 176 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 include the following:

'Market income' represents interest income from retail and wholesale finance receivables, rentals received for operating lease vehicles less depreciation of motor vehicles held for use under operating leases and net fees and commissions income.

'Borrowing costs' represents the costs associated with locally and centrally sourced funding (both unsecured and securitisation), and is presented on an RBE basis. The RBE process allocates equity based on an assessment of the inherent risk in each location's portfolio, 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.

'Operating expenses' are typically the same as reported for performance measurement and IFRS.

'Expected credit losses/ Impairment losses' are reported under US GAAP, based on lifetime expected credit loss (ECL) on the finance receivables.

'All other' represents any gains or losses on residual values and residual value reserve adjustments. This includes operating leases in Germany, where Ford indemnifies the majority of any residual value loss. Income received from this arrangement is included in Market income.

'Profit/(loss) before tax' is reported under US GAAP on an RBE basis excluding fair value adjustments to financial instruments and foreign exchange adjustments.

'Net receivables' are managed on a US GAAP basis excluding the '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 2020

35 SEGMENT REPORTING CONTINUED

35b) IFRS BASIS

		UK	Germany	Italy	Spain	France	Central / Other	Total
		2020	2020	2020	2020	2020	2020	2020
		£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
INCOME STATEMENT	**Note**							
Retail revenue		165	136	87	20	14	27	**449**
Wholesale revenue		77	60	25	20	19	26	**227**
Other income		1	(0)	-	-	-	8	**9**
Fee and commission income	3	15	16	9	1	17	3	**61**
Income from operating leases	4	-	218	-	-	-	-	**218**
Total external revenue		258	430	121	41	57	57	**964**
Inter-segment revenue		0	0	-	-	-	(1)	**(1)**
Total Revenue		**258**	**430**	**121**	**41**	**57**	**56**	**963**
Depreciation of property and equipment	15/16	(3)	(191)	-	(1)	-	(1)	**(196)**
Amortisation of other intangibles	17	-	-	-	-	-	(4)	**(4)**
Profit before tax		71	74	14	2	14	9	**184**
ASSETS								
Net loans and advances to customers	12	5,113	4,899	2,794	850	1,016	1,132	**15,804**
Property and equipment	15	1	318	1	1	1	20	**342**
Total assets		**5,663**	**6,603**	**3,240**	**959**	**1,057**	**2,012**	**19,534**

35 SEGMENT REPORTING CONTINUED

35b) IFRS BASIS

		UK	Germany	Italy	Spain	France	Central / Other	Total
		2019	2019	2019	2019	2019	2019	2019
		£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
INCOME STATEMENT	**Note**							
Retail revenue		164	132	81	22	16	24	**439**
Wholesale revenue		105	75	28	19	34	41	**302**
Other income		2	1	-	-	-	13	**16**
Fee and commission income	3	15	14	10	2	18	4	**63**
Income from operating leases	4	-	417	-	-	-	-	**417**
Total Revenue		**286**	**639**	**119**	**43**	**68**	**81**	**1,236**
Depreciation of property and equipment	15	-	(402)	-	-	-	(3)	**(405)**
Amortisation of other intangibles	17	-	-	-	-	-	(3)	**(3)**
Profit before tax		110	92	25	5	11	54	**297**
ASSETS								
Net loans and advances to customers	12	6,342	5,517	2,694	939	1,098	1,276	**17,866**
Property and equipment	15	1	383	-	1	1	(46)	**340**
Total assets		**6,739**	**6,957**	**2,814**	**986**	**1,132**	**1,911**	**20,539**

IFRS Basis

The table above provides additional segmental information on an IFRS basis which includes fair value adjustments to financial instruments and foreign exchange adjustments and excludes RBE analytical adjustments. The information produced in 35b is produced on the basis described as it is deemed impracticable to produce additional IFRS 8 supplementary information on a basis consistent with the performance measurement results disclosed to the EC.

Transfer Pricing

The Company utilises the transfer pricing methodology in line with the Organisation for Economic Co-operation and Development (OECD) guidelines. This does not affect 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 35b reflects the transfer pricing method.

35 SEGMENT REPORTING CONTINUED

35c) RECONCILIATION BETWEEN PERFORMANCE MEASUREMENT AND IFRS FIGURES

		Market Income 2020 mil	Borrowing Costs 2020 mil	Operating Expenses 2020 mil	Expected Credit Losses 2020 mil	PBT 2020 mil	Net Receivables 2020 mil
Performance measurement figures							
Reportable segments	$	931	(308)	(320)	(58)	218	21,039
Central operations/other	$	84	(18)	(49)	(2)	14	1,560
Total	**$**	**1,015**	**(326)**	**(369)**	**(60)**	**232**	**22,599**
Converted to GBP	£	787	(253)	(287)	(48)	178	16,539
Presentational differences							
Operating leases	£	161	-	-	-	-	(311)
Unearned interest supplements	£	-	-	-	-	-	(377)
Provision for incurred losses	£	-	-	-	-	-	(46)
IFRS 16 leases	£	-	-	-	-	(3)	-
Fees and commission expense	£	10	-	4	-	-	-
Residual gains/losses/reserve	£	5	-	-	-	-	-
Other differences	£	1	(4)	8	(1)	(2)	(1)
Adjustments	£	-	-	-	-	-	-
Risk based equity adjustment	£	-	20	-	-	20	-
Other performance adjustments	£	-	20	-	-	(9)	-
Total reconciliation to IFRS	**£**	**964**	**(217)**	**(275)**	**(49)**	**184**	**15,804**

		Market Income 2019 mil	Borrowing Costs 2019 mil	Operating Expenses 2019 mil	Expected Credit Losses 2019 mil	PBT 2019 mil	Net Receivables 2019 mil
Performance measurement figures							
Reportable segments	$	1,028	(276)	(288)	(22)	356	22,841
Central operations / other	$	99	(21)	(72)	(1)	5	1,697
Total	**$**	**1,127**	**(297)**	**(360)**	**(23)**	**361**	**24,538**
Converted to GBP	£	882	(233)	(282)	(18)	281	18,592
Presentational differences							
Operating leases	£	342	-	-	-	-	(300)
Unearned interest supplements	£	-	-	-	-	-	(401)
Provision for incurred losses	£	-	-	-	-	-	(21)
IFRS 16 leases	£	-	-	-	-	(4)	-
Fees and commission expense	£	14	-	5	-	-	-
Residual gains/losses/reserve	£	(4)	-	-	-	-	(4)
Other differences	£	3	(8)	1	(4)	6	-
Adjustments	£	-	-	-	-	-	-
Risk based equity adjustment	£	-	15	-	-	15	-
Other performance adjustments	£	-	18	-	-	(1)	-
Total reconciliation to IFRS	**£**	**1,237**	**(208)**	**(276)**	**(22)**	**297**	**17,866**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

35 SEGMENT REPORTING CONTINUED

35c) RECONCILIATION BETWEEN PERFORMANCE MEASUREMENT AND IFRS FIGURES CONTINUED

This section commences with the performance measurement figures for FCE's Reportable Segments plus 'Central/Other' operations detailed in 35a and converts the US dollar amounts to Sterling based on the exchange rates as incurred and 'Net receivables' at the exchange rate prevailing on the reporting date. It then provides a reconciliation from the performance measurement figures to IFRS Statement view, shown in 35b.

Summary of key differences

'Presentational differences' EC reviews levels of 'Net Receivables' as a key performance measure. This includes operating leases (reported within the IFRS balance sheet within '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 including differences in ECL calculation between US-GAAP (based on lifetime ECL model) and IFRS (based on three-stage ECL model).

'Adjustments' RBE performance adjustment allocates equity based on an assessment of the inherent risk in each location's portfolio. 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 evaluation of the risk/return of individual locations.

'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.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

36 NOTES TO THE STATEMENT OF CASH FLOWS

	Company		Group	
	2020	**2019**	**2020**	**2019**
	£ mil	**£ mil**	**£ mil**	**£ mil**
Cash flows from operating activities				
Profit before tax	109	219	184	297
Adjustments for:				
Depreciation expense on property and equipment	-	-	-	4
Depreciation expense on operating lease vehicles	1	-	190	396
Depreciation expense on right-of-use assets	5	3	6	5
Effects of foreign currency translation	30	(46)	29	(46)
Gross impaired losses on loans and advances	63	37	77	45
Amortisation of other intangibles	4	3	4	3
Fair value adjustments to financial instruments	(4)	65	3	65
Interest expense	193	190	217	208
Interest income	(505)	(582)	(679)	(748)
Other operating income	(7)	(15)	(218)	(426)
Changes in operating assets and liabilities:				
Net increase in accrued liabilities and deferred income	43	75	33	87
Net increase in deferred charges and prepaid expenses	(20)	(53)	(21)	(50)
Net (increase)/decrease in finance receivables	2,160	1,201	2,557	(31)
Purchase of vehicles for operating leases	-	-	(640)	(1,074)
Net proceeds/(losses) from sale of operating lease vehicles	(1)	(12)	467	615
Net (increase)/decrease in vehicles awaiting resale	(4)	(13)	71	(63)
Net increase in accounts receivables	(76)	(65)	(77)	(66)
Net decrease in accounts payables	(19)	(13)	(18)	(4)
Net (increase)/decrease in accounts receivables from related undertakings	363	(304)	82	35
Net decrease in accounts payables to related undertakings	(20)	(48)	(15)	(25)
Cash generated/(used) in operating activities	**2,315**	**642**	**2,252**	**(773)**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2020

36 NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED

	Company 2020 £ mil	Company 2019 £ mil	Group 2020 £ mil	Group 2019 £ mil
At beginning of period:				
Cash and cash equivalents	741	1,002	1,453	1,879
Balance at 1 January	**741**	**1,002**	**1,453**	**1,879**
At end of period:				
Cash and cash equivalents	1,143	741	2,048	1,453
Balance at 31 December	**1,143**	**741**	**2,048**	**1,453**
Net (decrease)/increase in cash and cash equivalents				
Cash and cash equivalents at beginning of period	741	1,002	1,453	1,879
Cash and cash equivalents at end of period	1,143	741	2,048	1,453
Net decrease in cash and cash equivalents	**402**	**(261)**	**595**	**(426)**

Reconciliation of Liabilities Arising from Financing Activities

Company **For the year ended 31 December**	**2019 (Restated)**	**Cash flow**	**Non-Cash Changes**				**2020**
			Foreign exchange movement	**Fair value changes**	**Gain / Loss**	**Other**	
	£ mil	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**
Debt securities and loans provided by banks and other financial institutions	7,794	(3,769)	250	(60)	-	20	4,235
Funds provided by parent and related undertakings	4,455	497	200	(33)	-	(7)	5,112
Short-term borrowings	120	(118)	-	-	-	-	2
Deposits	1,971	1,637	2	(1)	-	-	3,609
Derivative financial instruments	(107)	63	(1)	(1)	(30)	20	(56)
Total liabilities from financing activities (a)	**14,233**	**(1,690)**	**451**	**(95)**	**(30)**	**33**	**12,902**

Group **For the year ended 31 December**	**2019 (Restated)**	**Cash flow**	**Non-Cash Changes**				**2020**
			Foreign exchange movement	**Fair value changes**	**Gain / Loss**	**Other**	
	£ mil	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**
Debt securities and loans provided by banks and other financial institutions	10,117	(3,852)	355	(69)	-	20	6,571
Funds provided by parent and related undertakings	5,104	497	235	(44)	-	(1)	5,791
Short-term borrowings	153	(102)	(1)	-	-	-	50
Deposits	1,971	1,637	2	(1)	-	-	3,609
Derivative financial instruments	(105)	58	(1)	(1)	(29)	28	(50)
Total liabilities from financing activities (a)	**17,240**	**(1,762)**	**590**	**(115)**	**(29)**	**47**	**15,971**

(a) Upon review, restricted cash is not considered liabilities arising from financing activities

37 FCE AND OTHER RELATED PARTY INFORMATION

Domicile: United Kingdom (UK).

Legal form: The Company is a regulated bank, authorised as a deposit taking, consumer credit and insurance intermediary business under the Financial Services and Markets Act 2000 and in accordance with the Financial Services Act 2012 and is authorised by the PRA and regulated by the FCA and PRA. In addition to the UK, the Company has branches in 8 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 – Arterial Road, Laindon Road, Essex, SS15 6EE. Registered in England and Wales no 00772784.

The Company has subsidiaries in Czech Republic, Germany, Hungary, Italy and Switzerland (see Note 20 'Investments in Other Entities').

Nature of operations and principal activities: FCE's primary business is to support the sale of Ford 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' page 134 for further details. The Company, through its Worldwide Trade Finance (WWTF) division, provides financing to importers and distributors in countries where typically there is no established local Ford presence. WWTF currently provides finance in about 70 countries. In addition, there are private label operations in some European markets.

Immediate parent undertaking: All of the 614,384,050 Ordinary £1 shares of FCE are owned by FCSH GmbH. FCSH does not produce consolidated accounts it being wholly owned by, and consolidated into the accounts of Ford Credit. For further details refer to Note 25 'Ordinary Shares and Share Premium'.

Ultimate parent undertaking: The ultimate parent undertaking and controlling party is Ford Motor Company (Ford). Ford, FCI and Ford Credit are all incorporated in the United States of America. FCSH is incorporated in Switzerland.

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.

38 EVENTS AFTER THE REPORTING PERIOD

The following were reportable events after the reporting period:

- On December 18, 2020, the Company signed an agreement to transfer on April 1, 2021 substantially all assets and associated liabilities excluding the retail portfolio in its Austrian branch to a newly established Austrian branch of the Group's German subsidiary, Ford Bank GmbH, provided certain conditions precedent are being met.
- In February 2021, management decided to discontinue most of the Italian branch activities including all regulated activities, following the transfer of its business to Ford Credit Italia SpA. As a result, it is expected that Italian branch deferred tax assets will be written down by £13 million during 2021.
- The Company plans to transfer substantially all assets and associated liabilities in its Italian branch to the Group's Italian subsidiary, Ford Credit Italia SpA on April 2021.

European operating locations

The following table details the countries in which FCE operates through a branch or a subsidiary.

Location	Address
The Company's Branch locations	
AUSTRIA	Ford Bank Austria Zweigniederlassung der FCE Bank plc, Fuerbergstrasse 51, Postfach 2, A -5020 Salzburg
BRITAIN	FCE Bank plc, Arterial Road, Laindon, Essex SS15 6EE
FRANCE	FCE Bank plc, Succursale France, Immeuble Axe Seine, 1 rue du 1er Mai, CS 90209, 92752 Nanterre Cedex
GERMANY	Ford Bank Niederlassung der FCE Bank plc, Josef-Lammerting-Allee 24-34, 50933 Köln
IRELAND	FCE Bank plc, Elm Court, Boreenmanna Road, Cork 999937 IE
ITALY	FCE Bank plc, Via Andrea Argoli 54, 00143 Rome
POLAND	FCE Bank SA Oddzial w Polsce, Marynarska Business Park, Tasmowa 7, 02-677 Warsaw
PORTUGAL	FCE Bank plc, Av. Liberdade, n° 249 - 5° Andar, 1250-143 Lisboa, Parish de Coração de Jesus
SPAIN	FCE Bank plc Sucursal en España, Calle Caléndula, 13, 28109 Alcobendas, Madrid
The Group: FCE's European subsidiaries	
CZECH REPUBLIC	FCE Credit, s.r.o., Nile House, Karolinská 654/2, 186 00 Prague 8
GERMANY	Ford Bank GmbH, Josef-Lammerting-Allee 24-34, 50933 Köln
HUNGARY	FCE Credit Hungária Zrt/FCE Services Szolgáltató Kft, 1138 Budapest, Népfürdő utca 22., Hungary
ITALY	Ford Credit Italia S.p.A, Via Andrea Argoli 54, 00143 Rome
SWITZERLAND	Ford Credit (Switzerland) GmbH, Geerenstrasse 10, 8304 Wallisellen

Country-by-Country Reporting

The following table is disclosed to capture the requirements of Article 89 relating to country-by-country reporting (CBCR) of the Capital Requirements Directive IV (CRDIV), which was enacted as a result of the Capital Requirements (Country-by-Country) Reporting Regulations 2013 (Statutory Instrument 2013 No. 3118). The regulation requires disclosure of Public Subsidies received (2020: nil).

For prior year comparators please see page 131 of FCE's 2019 Annual Reports and Accounts.

Name of Branch or Subsidiary	Principal Activity	Average Number of Full Time Employees	Total Income [a] £ mil	Profit or (loss) before tax [b] £ mil	Corporation tax paid £ mil
FCE Bank plc Austria	Bank	17	7	1	1.3
FCE Bank plc France	Bank	66	31	14	0.6
FCE Bank plc Germany	Bank	-	14	(5)	19.6
FCE Bank plc Ireland	Bank	3	3	1	0.2
FCE Bank plc Italy	Bank	71	83	14	6.6
FCE Bank plc Norway (until May 2020)	Bank	-	5	5	-
FCE Bank plc Portugal	Bank	7	2	0	-
FCE Bank plc Spain	Bank	77	29	2	(0.0)
FCE Bank plc UK	Bank	848	183	76	17.2
Ford Bank SA Oddzial w Polsce	Bank	15	1	0	(0.1)
Ford Bank GmbH	Bank	342	361	80	-
FCE Credit s.r.o	Finance company	15	2	(0)	0.2
FCE Credit Hungary Zrt FCE Services Kft	Finance company Finance company	6	2 0	0 0	0.3 0.0
Ford Credit Switzerland GmbH	Finance company	30	17	4	1.0
Ford Credit Italia Spa	Finance company	-	-	-	-

(a) *Total income is reported above on an IFRS basis at company level and does not include total income of the Structured Entities. It comprises net interest income plus net fees and commission income plus other operating income*

(b) Profit or (loss) before tax is reported above on an IFRS basis at company level and does not include the profits or losses of the Structured Entities.

FCE Bank plc UK includes both central office and UK market as per Note 35 'Segment Reporting'. For further details on the country of incorporation for the banks and finance companies, refer to European Operating Locations.

For further details on events after reporting period, refer to Note 38 'Events After The Reporting Period'.

Independent auditors' report to the members of FCE Bank plc

Report on the audit of the country-by-country information

Opinion

In our opinion, FCE Bank plc's country-by-country information for the year ended 31 December 2020 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.
We have audited the country-by-country information for the year ended 31 December 2020 in the Country-by-Country Reporting.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Basis of preparation

In forming our opinion on the country-by-country information, which is not modified, we draw attention to the country-by-country reporting which describes the basis of preparation. The country-by-country information is prepared for the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Performing a risk assessment to identify factors that could impact the going concern basis of accounting including the impact of COVID-19.
- Understanding management's forecasts and stresses with a focus on liquidity risk, and assessing their reasonableness based on historic performance and our testing of key funding agreements.
- Evaluation of funding sources available, including the continued planned growth in retail deposits.
- Reading the latest ICAAP and ILAAP and evaluating the consistency with the going concern assessment performed by management.
- Assessing the financial performance of FMCC and its ability to continue to provide intercompany funding and to stand behind the Support agreement described in Note 25 to the financial statements.
- Met with the Company's lead regulator, the PRA, and understood their view of the going concern risk.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the date on which the country-by-country information is authorised for issue.

In auditing the country-by-country information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent auditors' report to the members of FCE Bank plc

Responsibilities for the country-by-country information and the audit

Responsibilities of the directors for the country-by-country information

The directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

In preparing the country-by-country information, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the country-by-country information

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this country-by-country information.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Prudential Regulatory Authority and Financial Conduct Authority , and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as applicable tax legislation and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates. Audit procedures performed included:

- Enquiries of management, including with Internal Audit and Compliance, in relation to known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect fraud and errors in financial reporting. This included considering the impact of COVID 19 on the firm's control environment and assessing the impact on the audit approach;
- Observing the effectiveness of key governance forums and reviewing management information presented at these meetings;
- Reading key correspondence with regulatory authorities;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the impairment of loans and advances;
- Identifying and testing journal entries, in particular journal entries posted by senior management, journals posted with descriptions indicating a higher level of risk and post close journal entries; and
- Discussing the facts and judgements in relation to the Italian Competition Authority matter described in Note 28, including obtaining legal confirmation from the Company's legal advisers.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the country-by-country information. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Independent auditors' report to the members of FCE Bank plc

Use of this report

This report, including the opinion, has been prepared for and only for the company's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 March 2021

FORD CREDIT

Pillar 3 Disclosures

Unaudited

Pillar 3 Disclosures

Overview of Pillar 3 Disclosures

The following table provides an overview of where information on each Pillar 3 requirement can be found in the Annual Report. Any disclosure requirement not listed in the table is detailed in the Non applicability statement on page 142.

Pillar 3 disclosure requirement	Brief description of requirement	Reference
Scope of consolidation: Article 436	- Any differences in the basis of consolidation for accounting & prudential purposes - Disclose if made use of provision allowing individual consolidation	- 'Pillar 3 Disclosures' - Basis of disclosure; page 142 - N/A. FCE only reports on a Solo & Consolidated basis
Risk management objectives and policies: Article 435	- Risk management & objectives for each risk category - An approved declaration on risk management adequacy - An approved risk statement on the risk profile of the business strategy - Governance arrangements	- 'Business Environment'; pages 12 - 20 - 'Business Environment'; page 20 - 'Business Environment'; page 12 - 'Governance'; pages 29 – 36
Own funds: Article 437	- Reconciliation to financial statements - Calculation of Own funds - Terms & conditions of capital instruments	- 'Pillar 3 Disclosures' – Tables 1 & 2; page 144 - 'Pillar 3 Disclosures' – Table 14; page 162 - 'Pillar 3 Disclosures' – Table 15; pages 163 – 164
Capital requirements: Article 438	- Approach to assessing internal capital adequacy - 8% of the risk weighted exposure amounts for each exposure class of credit risk - Own funds requirement for foreign exchange risk and operational risk	- 'Business Performance'; page 10 - 'Pillar 3 Disclosures' – Table 6; pages 148 – 150 - 'Pillar 3 Disclosures' – Table 5; page 147
Exposure to counterparty credit risk: Article 439	- Method used to assign credit limits for counterparty credit exposures - Policies for the use of collateral and netting for counterparty credit exposures - Measures for counterparty credit risk exposure amounts - Notional value of credit derivatives and credit derivative hedges	- Note 29 – Credit risk; page 112 - Note 10 – Derivative Financial Instruments and Hedging Activities; pages 70 – 71 and Note 31 – Market risk; page 113 - 'Pillar 3 Disclosures' – Table 11; page 155 - N/A. FCE does not use credit derivatives
Capital buffers: Article 440	- Information in relation to compliance with the counter-cyclical buffer requirement	- 'Pillar 3 Disclosures' – Table 16 & Table 17; pages 165 & 166
Analysis of credit risk exposures: Article 442 c) – f) & Article 444	Each broken down by exposure class: - Total exposures & average exposures over the period, both after accounting offsets - Geographic distribution of exposures - Exposures split by industry or counterparty type (showing SMEs separately) - Exposures split by residual maturity	 - 'Pillar 3 Disclosures' – Table 6; page 148 - 'Pillar 3 Disclosures' – Table 9; page 153 - 'Pillar 3 Disclosures' – Table 8; page 152 - 'Pillar 3 Disclosures' – Table 10; page 154
Credit risk adjustments: Article 442 a), b), g), h) & i)	- Accounting definitions used for 'past due' & 'impaired' - Description of approach for determining specific & general credit risk adjustments - Reconciliation of changes in the specific & general credit risk adjustments - Impaired & past due exposures, specific & general credit risk adjustments, and charges to those adjustments during the period, broken down by counterparty type - Impaired & past due exposures split by geographical area	- Past Due in 'Glossary of Defined Terms'; page 176 & Impaired in 'Pillar 3 Disclosures' – Table 13a; page 157 - 'Note 13 – Allowance for Expected Credit Losses; page 78 and 'Pillar 3 Disclosures' – Table 12; page 156 - 'Pillar 3 Disclosures' – Table 12; page 156 - 'Pillar 3 Disclosures' – Table 13a)-d); pages 157 - 160 - 'Pillar 3 Disclosures' – Table 13e); page 161

Pillar 3 Disclosures

Unencumbered assets: Article 443	- Total amount of the balance sheet that is encumbered	- 'Pillar 3 Disclosures' – Tables 3 & 4; pages 145 & 146
Use of External Credit Assessment Institutions (ECAIs): Article 444	- Names of nominated ECAIs - The exposure classes for which each ECAI is used - The exposure amounts, including those after credit risk mitigation, associated with each credit quality step - The exposure amounts deducted from own funds	- 'Pillar 3 Disclosures' – Table 7; page 151 - 'Pillar 3 Disclosures' – Table 7; page 151 - 'Pillar 3 Disclosures' – Table 7; page 151 - 'Pillar 3 Disclosures' – Table 7; page 151
Exposure to market risk: Article 445	- Own funds requirement for each risk within market risk	- 'Pillar 3 Disclosures' – Table 5; page 147
Operational risk: Article 446	- Approaches for assessing own funds requirement that institution qualifies for - Description of factors considered in measurement approach	- 'Business Environment'; page 17 - 'Business Environment'; page 17
Exposure to interest rate risk on positions not included in the trading book: Article 448	- Nature of interest rate risk & frequency of its measurement - Relevant measure used by management for upward/downward shocks, broken down by currency	- 'Business Environment'; page 19 - Note 32b) – Interest rate risk; page 116
Remuneration Article 450	- Qualitative information on the remuneration for staff who have been assessed to have a material impact on FCE's risk profile - Quantitative remuneration information (split by Fixed and Variable elements)	 - 'Pillar 3 Disclosures' – Table 22; page 168
Leverage: Article 451	- The leverage ratio (LR) and how any transitional provisions have been applied - A breakdown of the total exposure measure and its reconciliation to the published financial statements - Description of the processes used to manage the risk of excessive leverage - The factors that had an impact on the LR during the period to which the ratio refers	- 'Pillar 3 Disclosures' – Table 19; page 167 - 'Pillar 3 Disclosures' – Table 19 & 20; page 167 - 'Pillar 3 Disclosures' – Table 21; page 168 - 'Pillar 3 Disclosures' – Table 21; page 168
Use of credit risk mitigation (CRM) techniques: Article 453	- Policies & processes for, and the extent to which, on and off-balance sheet netting is used - Description of the main types of collateral taken & the main types of guarantor - Total exposure amount covered by eligible collateral	- 'Pillar 3 Disclosures' – Table 1; page 144 - N/A. FCE currently only uses on balance sheet netting for its CRM

Overview

The Basel Committee of Banking Supervision (BCBS) first introduced consistent capital adequacy standards for internationally active financial institutions in its framework "Basel II" in 2004. This framework is structured around three pillars, which complement each other and are designed to promote market discipline, ultimately to ensure the safety and soundness of the financial sector.

Pillar 3 specifically aims at enhancing market discipline by requiring financial institutions to disclose the scope of application, capital adequacy, the capital risk exposures and risk assessment processes, and consequently by making this information accessible for other market participants. Pillar 3 is supplemented by Pillars 1 and 2, which set out the minimum capital requirements that firms are required to meet for credit, market and operational risk, and the supervisory review process respectively.

This chapter contains the remaining Pillar 3 disclosures required by Part Eight of the Capital Requirements Regulation (CRR) not already disclosed elsewhere in this Annual Report. All of the disclosures are subject to a thorough internal governance process and those that appear in the Financial Statements have been audited.

Pillar 3 Disclosures

Pillar 3 disclosure policy

FCE publishes its Pillar 3 disclosures at least annually, and has a policy in place to assess on a regular basis through the year the need to publish some or all of the disclosures more frequently if there is a significant change in the relevant characteristics of the business. It has also set a Materiality waiver which has been used in some of these disclosures where the mandatory templates specified by the EBA contain rows and columns for items that are not applicable to FCE's business model. Where these have been removed it is stated in the words accompanying the relevant table. Further waivers regarding the disclosure of non-material, proprietary or confidential information according to Art. 432 CRR have not been applied.

Basis of disclosure

FCE reports on two prudential consolidation bases.

1) Consolidated: There is no difference between the accounting consolidation referred to as 'Group' in this report and 'FCE Consolidated'.
2) Solo: FCE is also required to report to the regulator on a Solo basis, which excludes its subsidiaries. This basis is similar to the accounting consolidation referred to as 'Company' in this report although that also excludes the structured entities. Please see Note 20 'Investments in Other Entities' on page 96 for a full list of FCE's entities which are required for the purposes of Solo reporting.

The Pillar 3 disclosures in the Annual Report are shown only on a consolidated group basis. All of FCE's supervisory reports are based on IFRS-Accounting.

Non applicability and negative declarations

In principle, FCE observes all requirements stipulated in Part Eight, Titles II and III of the CRR. However certain requirements are not applicable to FCE and therefore are not disclosed in this report. In the interest of the clarity and transparency of this report, all requirements which are not applicable to FCE and the underlying reasoning are specified below along with negative declarations (in order of occurrence in the CRR):

- At FCE there is currently no impediment to transfer own funds or liabilities between parent & subsidiaries, therefore Art. 436 (c) CRR does not apply
- All of FCE's subsidiaries are included in the consolidation, therefore Art. 436 (d) CRR does not apply
- At FCE there are currently no restrictions to the calculation of own funds, therefore Art. 437 (1e) does not apply
- All capital ratios are calculated by FCE using own funds determined only on the basis laid down in the CRR, therefore Art. 437 (1f) does not apply
- FCE calculates all of its capital ratios based on the standardised methods, therefore all Articles of the CRR referencing Internal Methods do not apply to FCE. This refers to, amongst others, the Internal Rating Based Method (IRB) for Credit Risk, the Internal Models Approach (IMA) for Market Risk and the Advanced Measurements Approach (AMA) for Operational Risk, and respectively Articles 438, 449, 452, 454-455 of the CRR
- FCE does not have any exposure to wrong way risk, therefore Art. 439 (c) does not apply
- FCE's portfolio does not include any credit derivative exposures, therefore Art. 439 (g-i) do not apply
- FCE has not been classified as a globally systemically important institution, therefore Art. 441 CRR does not apply
- FCE does not calculate its risk weighted exposure amounts in accordance with either of Articles 243, 337 & 338 CRR, because there is no significant risk transfer on securitisation transactions and FCE does not hold a trading book. Therefore Articles 445 and 449 CRR do not apply. Art. 444 (c) does not apply either due to the same reasoning
- FCE only uses the standard associations regarding external ratings as published by the EBA, hence Art. 444 (d) does not apply
- FCE has no derecognised fiduciary items in accordance with Art. 429 (11), hence Art. 451 (1c) does not apply
- FCE applies credit risk mitigation techniques as described on pages 144 and 150. This does not result in market or credit risk concentrations, therefore Art. 453 (e) does not apply

Pillar 3 Disclosures

Index of disclosures

Pillar 3 Disclosures

1 RECONCILIATION TO STATEMENT OF FINANCIAL POSITION - ASSETS

GROUP / CONSOLIDATED As at 31 December 2020 ASSETS	Statement of financial position £ mil	Own funds elements Deductions from CET1 £ mil	 Tier 2 (T2) Items £ mil	Credit Risk Mitigation (On Balance Sheet Netting) £ mil	Subject to Credit Risk £ mil
Cash and cash equivalents	2,048	-	-	-	2,048
Derivative financial instruments	93	-	-	-	93
Other assets	1,148	-	-	-	1,148
Loans and advances to customers	15,804	-	-	(952)	14,852
Property and equipment	316	-	-	-	316
Right-of-use assets	26	-	-	-	26
Intangible assets	33	(33)	-	-	-
Income taxes receivable	7	-	-	-	7
Deferred tax assets	59	(22)	-	-	37
Investment in other entities	-	-	-	-	-
TOTAL ASSETS	**19,534**	**(55)**	**-**	**(952)**	**18,527**

The table above provides a reconciliation of the assets in FCE's Statement of Financial Position on page 51, to assets subject to credit risk prior to risk weighting. FCE's only form of Credit Risk Mitigation (CRM) is the use of on balance sheet netting where loans from parent entities are used to mitigate the exposures to Ford Motor Company and to some dealers.

2 RECONCILIATION TO STATEMENT OF FINANCIAL POSITION – LIABILITIES AND SHAREHOLDERS' EQUITY

GROUP / CONSOLIDATED As at 31 December 2020 LIABILITIES	Statement of financial position £ mil	Own funds elements Common Equity Tier 1 (CET1) Items £ mil	 Tier 2 (T2) Items £ mil
Financial liabilities	12,466	-	339
Lease liabilities	27	-	-
Deposits	3,609	-	-
Derivative financial instruments	43	-	-
Other liabilities and provisions	334	-	-
Income taxes payable	28	-	-
Deferred tax liabilities	24	-	-
TOTAL LIABILITIES	**16,531**	**-**	**339**
SHAREHOLDERS' EQUITY			
Ordinary shares	614	614	-
Share premium	352	352	-
Retained earnings	2,037	2,037	-
TOTAL SHAREHOLDERS' EQUITY	**3,003**	**3,003**	**-**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**19,534**	**3,003**	**339**

Pillar 3 Disclosures

3 a) ENCUMBERED AND UNENCUMBERED ASSETS

Template A CONSOLIDATED For the year ended 31 December 2020		Carrying amount of encumbered assets Column 010 £ mil	Fair value of encumbered assets Column 040 £ mil	Carrying amount of unencumbered assets Column 060 £ mil	Fair value of unencumbered assets Column 090 £ mil
010	**Assets of the reporting institution**	**5,965**	**Not Required**	**14,301**	**Not Required**
020	Loans on demand	-	Not Required	2,144	Not Required
030	Equity instruments	-	-	-	-
100	Loans and advances other than loans on demand	5,965	Not Required	10,991	Not Required
120	Other assets	-	Not Required	1,166	Not Required

3 b) ASSET ENCUMBRANCE – COLLATERAL RECEIVED

Template B CONSOLIDATED For the year ended 31 December 2020		Fair value of encumbered collateral received or own debt securities issued Column 010 £ mil	Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance Column 040 £ mil
130	**Collateral received by the reporting institution**	-	-
240	**Own debt securities issued other than own covered bonds or asset- backed securities**	-	-
241	Own covered bonds and asset-backed securities issued and not yet pledged	-	228
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT**	**5,965**	**Not Required**

3 c) ASSET ENCUMBRANCE – SOURCES OF ENCUMBRANCE

Template C CONSOLIDATED For the year ended 31 December 2020		Matching liabilities, contingent liabilities or securities lent Column 010 £ mil	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered Column 030 £ mil
010	**Carrying amount of selected financial liabilities**	**2,633**	**5,965**
120	**Other sources of encumbrance**	-	-
170	**TOTAL SOURCES OF ENCUMBRANCE**	**2,633**	**5,965**

Pillar 3 Disclosures

4 ASSET ENCUMBRANCE – NARRATIVE INFORMATION

Template D

CONSOLIDATED

As at 31 December 2020

	Asset encumbrance arises from securitisation programmes that generally include the transfer of loans and advances through a variety of programmes and structured entities. Such receivables have typically been sold for legal purposes to consolidated structured entities. Securities issued by the structured entity are, from time to time, purchased by FCE and used as collateral for financing received from central banks. Securitisation continues to represent an important portion of FCE's funding structure and it monitors the mix of its secured and unsecured funding sources within its funding plan seeking the benefits of diverse funding sources. As FCE is not fully isolated from the risks and benefits of securitisation transactions, it continues to recognise the carrying value of the transferred assets.

The tables above have been prepared according to the EBA's technical standards on asset encumbrance disclosure using their published templates, but with certain rows and columns omitted to reflect FCE's Materiality waiver. The amounts shown are the median of the values reported as at each quarter end during the year.

Pillar 3 Disclosures

5 PILLAR 1 CAPITAL REQUIREMENT SPLIT BY RISK TYPE

As at 31 December		2020		2019	
CONSOLIDATED		**Risk exposure amount**	**Capital requirement**	**Risk exposure amount**	**Capital requirement**
Risk type	**Approach**	**£ mil**	**£ mil**	**£ mil**	**£ mil**
Credit risk (excl. Counterparty credit risk)	Standardised	13,491	1,079	15,083	1,206
Counterparty credit risk	Mark to Market	92	7	117	10
Total credit risk		**13,583**	**1,086**	**15,200**	**1,216**
Credit valuation adjustment (CVA) risk	Standardised	82	7	82	7
Market risk (Foreign exchange risk)	Standardised	491	39	268	21
Operational risk	Standardised	933	75	933	75
Total all risk types		**15,089**	**1,207**	**16,483**	**1,319**

The table above uses the following terms.

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

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

For the remaining Pillar 1 risk types, the capital requirement value is calculated directly by the method prescribed in the CRR. FCE has a Total Capital Requirement (TCR) that covers both Pillar 1 and Pillar 2 risk types. FCE's TCR as at 31 December 2020 was 11.2% (2019: 11.1%).

Pillar 3 Disclosures

6 CREDIT RISK – TOTAL EXPOSURE AMOUNT AND AVERAGE EXPOSURE AMOUNT BEFORE AND AFTER CREDIT RISK MITIGATION (CRM)

CONSOLIDATED As at 31 December 2020 Exposure class	Exposure amount after credit conversion factors		Capital requirements			
			Year end		Average	
On balance sheet exposures	Year end	Average	RWEA	Capital required	RWEA	Capital required
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
Corporates	5,704	6,652	5,704	456	6,652	532
Retail	9,824	9,806	7,018	562	7,001	560
of which: SME	1,961	1,981	1,121	90	1,132	91
Public sector entities	40	39	40	3	39	3
Central governments or central banks	2,046	1,627	-	-	-	-
Institutions	490	494	99	8	101	8
Exposures in default	216	261	324	26	392	31
Other items	32	35	31	2	34	3
Items below threshold for capital deduction	-	-	-	-	-	-
Central governments or central banks (DTA)	37	35	93	7	86	7
Institutions: (Investments)	-	-	-	-	-	-
Total on balance sheet	**18,389**	**18,949**	**13,309**	**1,064**	**14,305**	**1,144**
Off balance sheet exposures						
Corporates	38	38	38	3	38	3
Retail	193	145	144	12	109	9
Total off balance sheet	**231**	**183**	**182**	**15**	**147**	**12**
Total credit risk (excl. counterparty credit risk)	**18,620**	**19,132**	**13,491**	**1,079**	**14,452**	**1,156**
Derivatives						
Corporates	4	7	4	-	7	1
Institutions	270	310	88	7	108	9
Total counterparty credit risk	**274**	**317**	**92**	**7**	**115**	**10**
Total credit risk	**18,894**	**19,449**	**13,583**	**1,086**	**14,567**	**1,166**

Pillar 3 Disclosures

6 CREDIT RISK – TOTAL EXPOSURE AMOUNT AND AVERAGE EXPOSURE AMOUNT BEFORE AND AFTER CREDIT RISK MITIGATION (CRM) Continued

CONSOLIDATED As at 31 December 2019	**Exposure amount after credit conversion factors**		**Capital requirements**			
Exposure class			**Year end**		**Average**	
On balance sheet exposures	**Year end**	**Average**	**RWEA**	**Capital required**	**RWEA**	**Capital required**
	£ mil	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**
Corporates	7,600	7,961	7,600	608	7,958	637
Retail	9,688	9,670	6,918	553	6,901	552
of which: SME	1,950	1,967	1,114	90	1,124	90
Public sector entities	38	30	38	3	30	2
Central governments or central banks	1,102	1,125	-	-	-	-
Institutions	459	514	93	8	107	9
Exposures in default	167	180	251	20	269	22
Other items	42	27	40	3	26	2
Items below threshold for capital deduction	-	-	-	-	-	-
Central governments or central banks (DTA)	45	32	114	9	79	6
Institutions: (Investments)	-	-	-	-	-	-
Total on balance sheet	**19,141**	**19,539**	**15,054**	**1,204**	**15,370**	**1,230**
Off balance sheet exposures						
Corporates	29	27	29	2	27	2
Retail	-	-	-	-	-	-
Total off balance sheet	**29**	**27**	**29**	**2**	**27**	**2**
Total credit risk (excl. counterparty credit risk)	**19,170**	**19,566**	**15,083**	**1,206**	**15,397**	**1,232**
Derivatives						
Corporates	5	8	5	1	8	1
Institutions	319	388	112	9	149	12
Total counterparty credit risk	**324**	**396**	**117**	**10**	**157**	**13**
Total credit risk	**19,494**	**19,962**	**15,200**	**1,216**	**15,554**	**1,245**

Pillar 3 Disclosures

6 CREDIT RISK – TOTAL EXPOSURE AMOUNT AND AVERAGE EXPOSURE AMOUNT BEFORE AND AFTER CREDIT RISK MITIGATION (CRM) Continued

The Credit Risk exposures depicted in Table 6 on pages 148 to 150 have all been calculated according to the standardised method. These tables use the following terms:

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

'SME' relates to exposures to small or medium sized enterprises within the Retail exposure class as defined in the CRR.

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

'Institutions' relates to exposures of varying residual maturities.

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

'Averages' are the mean of the amounts reported as at each quarter end during the year being reported.

'Risk Weighted Exposure Amount (RWEA)' is calculated by multiplying the exposure amount by the appropriate risk weight percentage. For exposure to SMEs, the
SME supporting factor is applied.

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

Additional information: In addition to the exposure classes shown in tables 6-10, FCE also has an exposure in the "Equities" exposure class but only when reporting on a Solo basis. As all of the Pillar 3 disclosures are provided only on an FCE Consolidated basis, that class is not shown and Article 447 (a-e) is therefore not applicable.

7 CREDIT RISK – EXPOSURE AMOUNT AFTER CRM ANALYSED BY CREDIT QUALITY STEP

CONSOLIDATED — **Exposure amount- After credit conversion factors**

As at 31 December	**2020**				**2019**			
Credit Quality Step	Public Sector Entities	Institutions	All other Exposure Classes	**Total**	Public Sector Entities	Institutions	All other Exposure Classes	**Total**
On balance sheet exposures	£ mil	£ mil	£ mil	**£ mil**	£ mil	£ mil	£ mil	**£ mil**
Credit Quality Step (CQS) 1	-	2	-	2	-	2	-	2
Credit Quality Step (CQS) 2	-	387	-	387	-	335	-	335
Credit Quality Step (CQS) 3	40	80	-	120	38	108	-	146
Credit Quality Step (CQS) 4	-	2	-	2	-	2	-	2
Credit Quality Step (CQS) 5	-	-	-	-	-	-	-	-
Uniform regulatory treatment	-	19	17,859	17,878	-	12	18,644	18,656
Total on balance sheet	**40**	**490**	**17,859**	**18,389**	**38**	**459**	**18,644**	**19,141**
Off balance sheet exposures								
Uniform regulatory treatment	-	-	231	231	-	-	29	29
Total off balance sheet	**-**	**-**	**231**	**231**	**-**	**-**	**29**	**29**
Total credit risk (excl. counterparty credit risk)	**40**	**490**	**18,090**	**18,620**	**38**	**459**	**18,673**	**19,170**
Derivatives								
Credit Quality Step (CQS) 1	-	-	-	-	-	-	-	-
Credit Quality Step (CQS) 2	-	91	-	91	-	131	-	131
Credit Quality Step (CQS) 3	-	80	-	80	-	89	-	89
Uniform regulatory treatment	-	99	4	103	-	99	5	104
Total counterparty credit risk	**-**	**270**	**4**	**274**	**-**	**319**	**5**	**324**
Total credit risk	**40**	**760**	**18,094**	**18,894**	**38**	**778**	**18,678**	**19,494**

Under the Standardised approach, defined exposure classes are risk weighted by first defining the relevant Credit Quality Step (CQS) of the counterparty. Where the counterparty is known to be rated by an External Credit Assessment Institution (ECAI), FCE uses the rating of Standard & Poor's (S&P) to determine which CQS to apply and then calculates the subsequent risk weighting.

The risk weightings for all other exposure classes are calculated without applying the credit quality step. These are shown in the rows labelled 'Uniform regulatory treatment' in the tables.

Pillar 3 Disclosures

8 CREDIT RISK – EXPOSURE AMOUNT AND RISK WEIGHTED EXPOSURE AMOUNT BY INDUSTRY TYPE

CONSOLIDATED

As at 31 December 2020 **Exposure class**	**Ford dealers** **£ mil**	**Other corporates (incl. FMC owned)** **£ mil**	**SMEs** **£ mil**	**Private customers** **£ mil**	**Credit institutions** **£ mil**	**Central governments or central banks** **£ mil**	**Other** **£ mil**	**Total** **£ mil**
Corporate	4,282	1,464	-	-	-	-	-	**5,746**
Retail	-	-	1,961	8,056	-	-	-	**10,017**
Public sector entities	-	-	-	-	-	-	40	**40**
Central governments or central banks	-	-	-	-	-	2,083	-	**2,083**
Institutions	-	-	-	-	760	-	-	**760**
Exposures in default	156	-	17	43	-	-	-	**216**
Other items	-	-	-	-	-	-	32	**32**
Total credit risk	**4,438**	**1,464**	**1,978**	**8,099**	**760**	**2,083**	**72**	**18,894**
	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
RWEA	**4,515**	**1,464**	**1,146**	**6,107**	**187**	**93**	**71**	**13,583**

As at 31 December 2019 **Exposure class**	**Ford dealers** **£ mil**	**Other corporates (incl. FMC owned)** **£ mil**	**SMEs** **£ mil**	**Private customers** **£ mil**	**Credit institutions** **£ mil**	**Central governments or central banks** **£ mil**	**Other** **£ mil**	**Total** **£ mil**
Corporate	6,031	1,603	-	-	-	-	-	**7,634**
Retail	-	-	1,950	7,738	-	-	-	**9,688**
Public sector entities	-	-	-	-	-	-	38	**38**
Central governments or central banks	-	-	-	-	-	1,147	-	**1,147**
Institutions	-	-	-	-	778	-	-	**778**
Exposures in default	86	-	16	65	-	-	-	**167**
Other items							42	**42**
Total credit risk	**6,117**	**1,603**	**1,966**	**7,803**	**778**	**1,147**	**80**	**19,494**
RWEA	**6,162**	**1,603**	**1,138**	**5,902**	**205**	**112**	**78**	**15,200**

Pillar 3 Disclosures

9 CREDIT RISK – EXPOSURE AMOUNT AND RISK WEIGHTED EXPOSURE AMOUNT BY GEOGRAPHICAL AREA

CONSOLIDATED **Exposure amount**

As at 31 December 2020 Exposure class	UK £ mil	Germany £ mil	Italy £ mil	Spain £ mil	France £ mil	Other £ mil	Total FCE £ mil
Corporate	1,357	2,028	557	310	624	870	**5,746**
Retail	3,441	3,167	2,148	561	431	269	**10,017**
Public sector entities	-	-	40	-	-	-	**40**
Central governments or central banks	691	900	373	69	-	50	**2,083**
Institutions	273	23	18	28	83	335	**760**
Exposures in default	10	52	130	6	-	18	**216**
Other items	20	7	1	1	3	-	**32**
Total credit risk	**5,792**	**6,177**	**3,267**	**975**	**1,141**	**1,542**	**18,894**
RWEA	**4,006**	**4,370**	**2,345**	**744**	**960**	**1,158**	**13,583**

CONSOLIDATED **Exposure amount**

As at 31 December 2019 Exposure class	UK £ mil	Germany £ mil	Italy £ mil	Spain £ mil	France £ mil	Other £ mil	Total FCE £ mil
Corporate	2,156	2,559	698	349	919	953	**7,634**
Retail	3,607	2,988	1,971	586	204	332	**9,688**
Public sector entities	-	-	37	-	-	1	**38**
Central governments or central banks	521	539	64	16	1	6	**1,147**
Institutions	309	44	16	3	149	257	**778**
Exposures in default	8	69	54	16	8	12	**167**
Other items	28	8	-	2	3	1	**42**
Total credit risk	**6,629**	**6,207**	**2,840**	**972**	**1,284**	**1,562**	**19,494**
RWEA	**4,953**	**4,812**	**2,245**	**802**	**1,132**	**1,256**	**15,200**

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10 CREDIT RISK – ASSETS BY RESIDUAL MATURITY

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

CONSOLIDATED As at 31 December 2020 Assets	Note	0-3 Months £ mil	4-12 Months £ mil	1-5 Years £ mil	5+ Years £ mil	Total £ mil
Cash and cash equivalents (institutions, central banks)	A	2,048	-	-	-	**2,048**
Derivative financial instruments (institutions, corporates)	C	11	53	31	-	**95**
- Retail/Lease (retail)	B	985	3,156	7,453	4	**11,598**
- Wholesale (corporates)	B	684	4,251	55	-	**4,990**
Loans and advances to customers	**B**	**1,669**	**7,407**	**7,508**	**4**	**16,588**
Operating leases (corporates)	B	105	206	-	-	**311**
Other assets (corporates, central governments, other items)	D	713	40	45	115	**913**
Total asset inflows		**4,546**	**7,706**	**7,584**	**119**	**19,955**

CONSOLIDATED As at 31 December 2019 Assets	Note	0-3 Months £ mil	4-12 Months £ mil	1-5 Years £ mil	5+ Years £ mil	Total £ mil
Cash and cash equivalents (institutions, central banks)	A	1,453	-	-	-	**1,453**
Derivative financial instruments (institutions, corporates)	C	8	63	69	-	**140**
- Retail/Lease (retail)	B	932	2,975	7,863	6	**11,776**
- Wholesale (corporates)	B	883	5,973	51	-	**6,907**
Loans and advances to customers	**B**	**1,815**	**8,948**	**7,914**	**6**	**18,683**
Operating leases (corporates)	B	151	149	-	-	**300**
Other assets (corporates, central governments, other items)	D	201	26	40	57	**324**
Total asset inflows		**3,628**	**9,186**	**8,023**	**63**	**20,900**

Note	Cash flows from assets are allocated to the appropriate time bands as follows:
A	Based on availability of 'cash and cash equivalents' as follows (Note 9 'Cash and Cash Equivalents' in the Financial Statements): •'Cash and cash equivalents' classified by contractual maturity date.
B	Customer payments are assumed to occur on the latest contractual date and no behavioural adjustments are made for customer *early settlements:* • Retail finance and lease contracts and operating lease vehicles (reported within Note 15 'Property and equipment') generally require customers to pay equal monthly instalments over the life of the contract. • Wholesale financing for new and used vehicles held in dealers' inventory - A bullet repayment schedule is utilised as the principal is typically repaid in one lump sum at the end of the financing period.
C	Forward foreign exchange contracts, cross currency interest rate swaps and interest rate swaps are presented as settled on a net basis.
D	Classified according to the remaining period to maturity, including 'Restricted Cash' which are assumed to be amounts typically not available for use in day to day operations classified based on the latest possible repayment date.

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11 COUNTERPARTY CREDIT RISK - EXPOSURE AMOUNTAND NOTIONAL AMOUNT

As at 31 December CONSOLIDATED	2020				2019			
	MTM	Potential future exposure	Total exposure at default	Notional amount	MTM	Potential future exposure	Total exposure at default	Notional amount
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
Interest rate contracts	66	131	197	22,143	89	120	209	21,836
Foreign exchange contracts	27	5	32	527	58	17	75	918
Total contracts	**93**	**136**	**229**	**22,670**	**147**	**137**	**284**	**22,754**

Memo:	2020	2019
	£ mil	£ mil
Collateral held	14	(8)
Initial margin posted	45	40

FCE's exposure to counterparty credit risk is through interest rate and foreign exchange derivatives. The exposure amounts in the table above are calculated in line with the CRR mark-to-market (MTM) method.

With regards to Art. 439 (d), there would be no material impact to collateral requirements of existing contracts in the event of a deterioration of FCE's credit rating.

Please refer to Note 31 'Market Risk' for further details of FCE's Derivatives policies and controls.

The table above uses the following terms.

'Initial margin posted' is the value of Initial Margin cash collateral FCE has posted to a Qualifying Central Counterparty (CCP) in respect of clearing arrangements.

'Collateral held' is the total net value of variation margin cash collateral received by FCE from the margining of derivative contracts.

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12 CREDIT RISK ADJUSTMENTS – RECONCILIATION OF MOVEMENTS

As at 31 December **CONSOLIDATED** **Reconciliation of movements**	**2020** **Total** **£ mil**	**2019** **Total** **£ mil**
Opening balance	**21**	**23**
Write Offs	(54)	(45)
Recoveries	28	22
Allowance for expected credit losses	49	22
FX movement	2	(1)
Closing balance	**46**	**21**
Income statement		
Charges - (Increase) / decrease	(77)	(44)
Recoveries	28	22
Total charged to Income statement	**(49)**	**(22)**

The credit risk adjustments shown in the table all meet the regulatory definition of 'Specific credit risk adjustments' and equate to the value of FCE's allowance for expected credit losses at 31 December. See Note 13 'Allowance for Expected Credit losses' for further information.

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13 a) CREDIT QUALITY OF FORBORNE EXPOSURES

Tables 13a) – 13d) use the standard 4 templates issued by the EBA to show the values of forborne and non-performing exposures for banks who have an NPL ratio below the 5% threshold. FCE's Materiality waiver has then been used to omit certain rows and columns in those standard templates.

		A	b	c	d	e	f	g	h
	CONSOLIDATED **As at 31 December 2020**	**Gross carrying amount/nominal amount of exposures with forbearance measures**				**Accumulated impairment, accumulated negative changes in fair value due to credit risk and provision**		**Collateral received and financial guarantees received on forborne exposures**	
		Performing forborne	**Non-performing forborne**	Of which defaulted	Of which impaired	**On performing forborne exposures**	**On non-performing forborne exposures**		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
		£ mil	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**
1	**Loans and Advances**	**64**	**235**	**48**	**235**	**-**	**(2)**	**252**	**202**
6	Non-financial corporations	32	169	46	169	-	(2)	183	156
7	Households	32	66	2	66	-	-	69	46
8	**Debt securities**	-	-	-	-	-	-	-	-
9	**Loan commitments given**	-	-	-	-	-	-	-	-
10	**Total**	**64**	**235**	**48**	**235**	**-**	**(2)**	**252**	**202**

CONSOLIDATED

As at 31 December 2019

		A	b	c	d	e	f	g	h
1	**Loans and Advances**	**81**	**167**	**4**	**167**	**-**	-	**191**	**130**
6	Non-financial corporations	53	87	3	87	-	-	114	73
7	Households	28	80	1	80	-	-	77	57
8	**Debt securities**	-	-	-	-	-	-	-	-
9	**Loan commitments given**	-	-	-	-	-	-	-	-
10	**Total**	**81**	**167**	**4**	**167**	**-**	-	**191**	**130**

'Impaired' for accounting purposes is a loan where, based on current information and events, it is probable that FCE will be unable to collect all amounts due (i.e. principal, interest and other related income) according to the contractual terms of the loan agreement.

Please also refer to Note 29 'Credit Risk' for more details on FCE's forborne exposures.

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13 b) CREDIT QUALITY OF PERFORMING AND NON-PERFORMING EXPOSURES BY PAST DUE DAYS

		a	b	c	d	e	f	g	h	i	j	k	l
	CONSOLIDATED	**Gross carrying amount/nominal amount**											
	As at 31 December 2020	**Performing exposures**			**Non-performing exposures**								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which de-faulted
		£ mil	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**
1	**Loans and Advances**	**15,588**	**15,557**	**31**	**262**	**190**	**15**	**50**	**4**	**3**	**-**	**-**	**72**
6	Non-financial corporations	6,595	6,588	7	185	126	9	43	4	3	-	-	59
7	Of which SMEs	1,839	1,832	7	17	14	2	1	-	-	-	-	3
8	Households	8,993	8,969	24	77	64	6	7	-	-	-	-	13
9	**Debt securities**	-	-	-	-	-	-	-	-	-	-	-	-
15	**Off-balance-sheet exposures**	**244**	Not Required		**-**	Not Required							**-**
20	Non-financial corporations	42			-								-
21	Households	201			-								-
22	**Total**	**15,832**	**15,557**	**31**	**262**	**190**	**15**	**50**	**4**	**3**	**-**	**-**	**72**

		a	b	c	d	e	f	g	h	i	j	k	l
	CONSOLIDATED												
	As at 31 December 2019												
1	**Loans and Advances**	**17,699**	**17,674**	**25**	**188**	**167**	**11**	**5**	**-**	**5**	**-**		**21**
6	Non-financial corporations	8,680	8,673	7	102	85	7	5	-	5	-	-	17
7	Of which SMEs	1,948	1,941	7	15	14	1	-	-	-	-	-	1
8	Households	9,019	9,001	18	86	82	4	-	-	-	-	-	4
9	**Debt securities**	-	-	-	-	-	-	-	-	-	-	-	-
15	**Off-balance-sheet exposures**	**312**	Not Required		-	Not Required							-
20	Non-financial corporations	64			-								-
21	Households	248											
22	**Total**	**18,011**	**17,674**	**25**	**188**	**167**	**11**	**5**		**5**	**-**	**-**	**21**

The gross Non-performing Loan ratio (NPL) as calculated from the values shown in the table above is 1.7% (2019: 1.1%). The increase in the NPL is due to the economic impact of COVID-19, including reduced sales and higher unemployment. The non-performing exposure is £262 million as at 31st December 2020 (2019: £188 million) with the increase primarily due to higher rescheduled dealers.

Please also refer to Note 13 'Allowance for Expected Credit losses' and Note 29 'Credit Risk' for more details on FCE's definitions of Performing and Non-performing. Please refer to the Glossary of Defined Terms for FCE's definition for accounting purposes of 'past due'.

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13 c) PERFORMING AND NON-PERFORMING EXPOSURES AND RELATED PROVISIONS

		a	b	c	d	e	f	g	h	i	j	m	n	o
	CONSOLIDATED As at 31 December 2020	**Gross carrying amount/nominal amount**						**Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions**				**Accumulated partial write-off**	**Collateral and financial guarantees received**	
		Performing Exposures			Non-performing exposures			Performing exposures - accumulated impairment and provisions			Non-performing exposures - accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		On performing exposures	On non-performing exposures
			Of which Stage 1	Of which Stage 2		Of which Stage 1	Of which Stage 2		Of which Stage 1	Of which Stage 2				
		£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
1	**Loans and Advances**	**15,588**	**14,504**	**1,084**	**262**	**-**	**262**	**(43)**	**(34)**	**(9)**	**(3)**	**(54)**	**10,508**	**223**
6	Non-financial corporations	6,595	6,231	364	185	-	185	(20)	(15)	(5)	(3)	(24)	5,422	171
7	Of which SMEs	1,839	1,569	270	17	-	17	(10)	(8)	(2)	(0)	(19)	896	11
8	Households	8,993	8,273	720	77	-	77	(23)	(19)	(4)	(0)	(30)	5,086	52
9	**Debt securities**	-	-	-	-	-	-	-	-	-	-	-	-	-
15	**Off-balance-sheet exposures**	**244**	**244**	-	-	-	-	-	-	-	-		-	-
20	Non-financial corporations	42	42	-	-	-	-	-	-	-	-	Not Required	-	-
21	Households	201	201	-	-	-	-	-	-	-	-		-	-
22	**Total**	**15,832**	**14,748**	**1,084**	**262**	-	**262**	**(43)**	**(34)**	**(9)**	**(3)**	**(54)**	**10,508**	**223**

	CONSOLIDATED As at 31 December 2019	a	b	c	d	e	f	g	h	i	j	m	n	o
1	**Loans and Advances**	**17,699**	**17,426***	**273***	**188**	-	**188**	**(21)**	**(20)**	**(1)**	-	**(23)**	**12,648**	**157**
6	Non-financial corporations	8,680	8,501*	179*	101	-	101	(6)	(5)	(1)	-	(8)	7,380	97
7	Of which SMEs	1,948	1,769*	179*	15	-	15	(5)	(4)	(1)	-	(74)	990	11
8	Households	9,019	8,925	94	87	-	87	(15)	(15)	-	-	(15)	5,268	60
9	**Debt securities**	-	-	-	-	-	-	-	-	-	-	-	-	-
15	**Off-balance-sheet exposures**	**312**	**312**	-	-	-	-	-	-	-	-		-	-
20	Non-financial corporations	64	64	-	-	-	-	-	-	-	-	Not Required	-	-
21	Households	248	248	-	-	-	-	-	-	-	-		-	-
22	**Total**	**18,011**	**17,738***	**273***	**188**		**188**	**(21)**	**(20)**	**(1)**		**(23)**	**12,648**	**157**

*** Restated**

Upon review of FCE's business risk profile, the majority of Wholesale receivables, which are within the non-financial corporations row in the above table, are now being recognised in stage 1 and only those that have had a significant increase in credit risk are to be recognised in stage 2. Please refer to Note 13 'Allowance for Expected Credit losses' for more details on the staging splits between Retail and Finance Lease, and Wholesale.

The collateral and financial guarantees received is £10,508m as at 31st December 2020 (2019: £12,648m). The decrease is due to the reduction in Wholesale Receivables whereby lower collateral is held against a lower receivable base. Refer to the footnotes in table 13b for further details.

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13 d) COLLATERAL OBTAINED BY TAKING POSSESSION AND EXECUTION PROCESSES

		2020		2019	
		a	b	a	b
		Collateral obtained by taking possession		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes
		£ mil	£ mil	£ mil	£ mil
1	**Property, plant and equipment (PP&E)**	-	-	-	-
2	**Other than PP&E**	4	-	4	-
	Movable property (auto)	4	-	4	-
8	**Total**	4	-	4	-

Table 13d shows the value of the repossessions that FCE has undertaken, which has remained flat year-over-year.

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13 e) GEOGRAPHICAL DISTRIBUTION OF IMPAIRED AND PAST DUE EXPOSURES

The tables below show amounts by geographical area based on the location of the reporting entity.

		a	b	c	d	e	f	g	h	i	j	k	l
	CONSOLIDATED	**Gross carrying amount/nominal amount**											
	As at 31 December 2020	**Performing exposures**			**Non-performing exposures**								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which impaired
		£ mil	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**
1	UK	5,098	5,086	12	29	20	4	5	-	-	-	-	29
2	Germany	4,847	4,842	5	62	60	1	1	-	-	-	-	62
3	Italy	2,671	2,663	8	134	85	8	41	-	-	-	-	134
4	Spain	843	840	3	10	9	1	-	-	-	-	-	10
5	France	1,014	1,013	1	5	2	-	3	-	-	-	-	5
6	Other	1,115	1,113	2	22	14	1	-	4	3	-	-	22
7	**Total**	**15,588**	**15,557**	**31**	**262**	**190**	**15**	**50**	**4**	**3**	**-**	**-**	**262**
	CONSOLIDATED												
	As at 31 December 2019												
1	UK	6,329	6,323	6	18	17	1	-	-	-	-	-	18
2	Germany	5,447	5,441	6	74	73	1	-	-	-	-	-	74
3	Italy	2,643	2,636	7	57	52	3	1	-	1	-	-	57
4	Spain	923	920	3	18	16	2	-	-	-	-	-	18
5	France	1,089	1,088	1	9	5	1	-	-	3	-	-	9
6	Other	1,268	1,266	2	12	4	3	4	-	1	-	-	12
7	**Total**	**17,699**	**17,674**	**25**	**188**	**167**	**11**	**5**	**-**	**5**	**-**	**-**	**188**

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14 CALCULATION OF OWN FUNDS

The table below uses the standard template issued by the EBA to show the composition of FCE's own funds but with certain rows and columns omitted to reflect FCE's Materiality waiver.

	CONSOLIDATED **As at 31 December**	**2020**	**2019**
	Common Equity Tier 1 (CET1) capital: instruments and reserves	**£ mil**	**£ mil**
1	Capital instruments and the related share premium accounts	966	966
	of which: share capital and share premium	966	966
2	Retained earnings	1,706	1,576
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	331	237
6	**Common Equity Tier 1 (CET 1) capital before regulatory adjustments**	**3,003**	**2,779**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
8	Intangible assets (net of related tax liability) (-)	(33)	(26)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3)	(22)	(26)
28	**Total regulatory adjustments applied to Common Equity Tier 1 (CET1)**	**(55)**	**(52)**
29	**Common Equity Tier 1 (CET1) capital**	**2,948**	**2,727**
45	**Tier 1 capital (T1= CET1 + Additional Tier 1 (AT1) capital)**	**2,948**	**2,727**
	Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	250	249
48	Qualifying own funds instruments included in consolidated T2 capital issued by subsidiaries and held by third parties	89	97
58	**Tier 2 (T2) capital**	**339**	**346**
59	**Total capital (TC = T1 + T2)**	**3,287**	**3,073**
60	**Total risk weighted assets**	**15,089**	**16,483**
	Capital ratio and buffers	**2020** **%**	**2019** **%**
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount)**	**19.54**	**16.54**
62	**Tier 1 (as a percentage of total risk exposure amount)**	**19.54**	**16.54**
63	**Total capital (as a percentage of total risk exposure amount)**	**21.79**	**18.64**
64	**Institution specific buffer requirement (as a percentage of total risk exposure amount)**	**2.50**	**2.86**
65	of which: capital conservation buffer requirement	2.50	2.50
66	of which: countercyclical buffer requirement	0.00	0.36
68	**Common Equity Tier 1 available to meet buffers (as a percentage of total risk exposure amount)**	**8.95**	**5.97***
	Amounts below the thresholds for deductions	**2020** **£ mil**	**2019** **£ mil**
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	-
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	37	45
76			
77			

* Restated

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15 CAPITAL INSTRUMENTS' MAIN FEATURES

As at 31 December 2020	Capital Instruments: Main features					
Main features	**Tier 1**	**Tier 2**				
Issuer	FCE Bank Plc	FCE Bank Plc	FCE Bank Plc	FCE Bank Plc	Ford Bank GmbH	Ford Bank GmbH
Unique Identifier (e.g. CUSP, ISIN, or Bloomberg identifier for private placement)	N/A	N/A	N/A	N/A	N/A	N/A
Governing law(s) of the instrument	England and Wales	England and Wales	England and Wales	England and Wales	Germany	Germany
Regulatory treatment						
Transitional CRR rules	Common-Equity Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
Post-transitional CRR rules	Common-Equity Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
Eligible at solo/(sub-) consolidated /solo & (sub-) consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated	Consolidated	Consolidated
Instrument type (types to be specified by each jurisdiction)	Ordinary Shares	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt
Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	£966m (includes £352m share premium)	£165m	£50m	£35m	£85m	£40m
Nominal amount of instrument	£1 per share	£165m	£50m	€40m / £35m	€95m / £85m	€44m / £40m
Issue price	100%	100%	100%	100%	100%	100%
Redemption price	N/A	100%	100%	100%	100%	100%
Accounting classification	Shareholder's Equity	Liabilty	Liabilty	Liabilty	Liabilty	Liabilty
Original date of issuance	11th October 1963	6th October 2000	30th December 2016	22nd December 2017	1st July 2018	26th February 2019
Perpetual or dated	*Perpetual*	*Dated*	*Dated*	*Dated*	*Dated*	*Dated*
Original maturity date	N/A	18th March 2030	18th March 2030	18th March 2030	1st July 2028	26th February 2029
Issuer call subject to prior supervisory approval	No	No	No	No	No	No
Optional call date, contingent call dates and redemption amount	No	No	No	No	No	No
Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A	N/A
Coupons / dividends						
Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating	Floating	Floating
Coupon rate and any related index	N/A	3 m GBP Libor + 3.79%	3 m GBP Libor + 3.79%	3 m Euribor + 3.33%	3 m Euribor + 3.33%	3 m Euribor + 3.33%
Existence of a dividend stopper	N/A	No	No	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
Existence of step up or other incentive to redeem	No	No	No	No	No	No
Noncumulative or cumulative	Noncumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A	N/A
If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A	N/A
If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A	N/A
If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A	N/A

Pillar 3 Disclosures

15 CAPITAL INSTRUMENTS' MAIN FEATURES CONTINUED

As at 31 December 2020	Capital Instruments: Main features					
Main features	Tier 1	Tier 2				
Convertible or non-convertible						
If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A	N/A
Write-down features	No	No	N/A	N/A	No	No
If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A	N/A
If write-down, full or partial	N/A	N/A	N/A	N/A	N/A	N/A
If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A	N/A
If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A	N/A
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated debt	Unsecured debt	Unsecured debt	Unsecured debt	Unsecured debt	Unsecured debt
Non-compliant transitioned features	No	No	No	No	No	No
If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A	N/A

Pillar 3 Disclosures

16 GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES RELEVANT FOR THE CALCULATION OF THE COUNTERCYCLICAL CAPITAL BUFFER

CONSOLIDATED	Credit Exposures		Own Funds Requirements	
As at 31 December 2020 010 Breakdown by Country	Exposure amount for SA Column 010	Own funds requirements Column 070 & 100	Own funds weights Column 110	Countercyclical capital rate Column 120
	£ 000	£ 000		
Bulgaria	9	1	0.000	0.500%
Czech Republic	64,230	5,138	0.005	0.500%
Hong Kong	4.383	351	0.000	1.000%
Luxembourg	85	7	0.000	0.250%
Norway	1	-	0.000	1.000%
Slovakia	2.153	172	0.000	1.000%
All other countries	13,192,564	1,055,405	99.995	0.000%
020 Total	13,263,425	1,061,074	100.000	0.003%

CONSOLIDATED	Credit Exposures		Own Funds Requirements	
As at 31 December 2019 010 Breakdown by Country	Exposure amount for SA Column 010	Own funds requirements Column 070 & 100	Own funds weights Column 110	Countercyclical capital rate Column 120
	£ 000	£ 000		
Bulgaria	624	50	0.00	0.500%
Czech Republic	62,168	4,973	0.42	1.500%
Denmark	571	46	0.00	1.000%
France	1,075,008	86,000	7.21	0.250%
Hong Kong	14,784	1,183	0.10	2.000%
Iceland	73	6	0.00	1.750%
Ireland	97,033	7,763	0.65	1.000%
Lithuania	2,645	212	0.02	1.000%
Norway	11	1	0.00	2.500%
Slovakia	1,858	149	0.01	1.500%
Sweden	6	-	0.00	2.500%
UK	4,848,973	387,918	32.50	1.000%
All other countries	8,740,505	699,240	59.09	0.000%
020 Total	**14,844,259**	**1,187,541**	**100.00**	**0.358%**

The tables above use the standard template issued by the EBA to show the distribution of relevant credit exposures for the calculation of an institution's countercyclical capital buffer (CCyB), with certain rows and columns omitted to reflect FCE's Materiality waiver.

The tables show only the countries that had CCyB rates recognised by the Financial Policy Committee (FPC) in the UK at above zero, and FCE had exposures to those countries as at the reporting date of each table.

Pillar 3 Disclosures

17 AMOUNT OF INSTITUTION-SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER

CONSOLIDATED	2020	2019
As at 31 December	£ mil	£ mil
010 Total risk exposure amount	15,089	16,483
020 Institution specific countercyclical capital buffer rate	0.00%	0.36%
030 Institution specific countercyclical capital buffer requirement	-	59

The table above uses the standard template issued by the EBA to show the value and rate of a firm's institution-specific countercyclical capital buffer requirement and shows FCE's value and rate as at 31 December 2020 and 2019.

18 RECONCILIATION OF THE LEVERAGE EXPOSURE MEASURE TO STATEMENT OF FINANCIAL POSITION – ASSETS

The leverage tables on pages which follow show the values as calculated under the leverage ratio delegated regulation, adopted by the European Commission in January 2015.

All tables have been prepared using the standard templates issued by the EBA with certain rows and columns omitted to reflect FCE's Materiality waiver.

The table below provides a reconciliation of FCE's assets as shown in the Statement of Financial Position on page 51 to the exposure measure used in the calculation of the leverage ratio.

LRSum		Applicable Amounts	
CONSOLIDATED		2020	2019
As at 31 December		£ mil	£ mil
1	**Total assets as per published financial statements**	**19,534**	**20,539**
4	Adjustments for derivative financial instruments	136	137
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	589	314
7	Other adjustments	(55)	(52)
8	**Total leverage ratio exposure**	**20,204**	**20,938**

Pillar 3 Disclosures

19 BREAKDOWN OF LEVERAGE EXPOSURE MEASURE AND CALCULATION OF LEVERAGE RATIO

LRCom CONSOLIDATED		CRR leverage ratio exposures	
		2020	**2019**
As at 31 December		**£ mil**	**£ mil**
	On balance sheet exposures (excluding derivatives & SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	19,441	20,392
2	(Asset amounts deducted in determining Tier 1 capital)	(55)	(52)
3	**Total on balance sheet exposures (excluding derivatives & SFTs)**	**19,386**	**20,340**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	93	147
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	136	137
11	**Total derivative exposures**	**229**	**284**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	3987	2,862
18	(Adjustments for conversion to credit equivalent amounts)	(3398)	(2,548)
19	**Other off-balance sheet exposures**	**589**	**314**
	Capital and total exposures		
20	**Tier 1 capital**	**2,948**	**2,727**
21	**Total leverage ratio exposures**	**20,204**	**20,938**
22	**Leverage ratio**	**14.59%**	**13.02%**

FCE's leverage ratio as at 31st December 2020 is 14.59% (2019: 13.02%). The table displays a fully-loaded leverage ratio. The Basel Committee (BCBS) is currently tracking financial institutions against a minimum requirement of 3%.

20 BREAKDOWN OF LEVERAGE EXPOSURE MEASURE BY EXPOSURE CLASS

LRSpl CONSOLIDATED		CRR leverage ratio exposures	
		2020	**2019**
As at 31 December		**£ mil**	**£ mil**
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:**	**19,441**	**20,392**
EU-2	Trading book exposures	-	-
EU-3	**Banking book exposures, of which:**	**19,441**	**20,392**
EU-5	Exposures treated as sovereigns	2,105	1,172
EU-6	Exposures to regional governments, MDB, international organisations & PSE NOT treated as sovereigns	40	38
EU-7	Institutions	535	499
EU-9	Retail exposures	9,824	9,688
EU-10	Corporate	6,656	8,760
EU-11	Exposure in default	216	167
EU-12	Other exposures (e.g. equity, securitisations and other non-credit obligation assets)	65	68

The table above gives a breakdown by exposure class of the on balance sheet element of the leverage exposure measure as shown in Table 19 above.

Pillar 3 Disclosures

21 QUALITATIVE DISCLOSURE ON MANAGEMENT OF LEVERAGE RATIO

LRQua

CONSOLIDATED **As at 31 December 2020**		
1	Description of the process used to manage the risk of excessive leverage	The capital position and leverage ratio are managed within FCE's Risk Appetite Framework and monitored by the Asset and Liability Management Committee (ALCO). This committee monitors the compliance and performance of the Leverage ratio to the long-term plan on a monthly basis. Management actions are recommended to the ALCO to prevent the Group from being excessively leveraged and to seek to ensure that capital ratios remain in excess of minimum capital requirements in normal circumstances and in stress. If the leverage ratio declines beneath internal minimum thresholds, then plans to return the leverage ratio to minimum thresholds would be implemented immediately.
2	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	The leverage ratio is primarily affected by the level of Tier 1 capital and exposures. Exposures have reduced while Tier 1 capital has increased.

22 REMUNERATION DISCLOSURE

Introduction

This section includes information which is required to be disclosed in accordance with Pillar 3, as defined by the Capital Requirements Regulation Article 450. It relates to those staff whose professional activities have a material impact on the firm's risk profile (Material Risk Takers). A total of 98 individuals were categorised as being Material Risk Takers in 2020. FCE (the Bank) confirms that it meets the requirements of the regulators Remuneration Code in all its aspects.

Background

FCE seeks to deploy pay and benefit programmes which support the achievement of its objectives, reflecting its status as a regulated bank and its commitment to operate within its prescribed risk tolerances. In doing so, the RemCo adopts the Shareholder's remuneration policy where it is consistent with the Bank's status in respect of the Remuneration Code. Where the RemCo judges the remuneration policy to be contrary to the Bank's interests, or requires revision to meet legal or regulatory requirements, the RemCo will raise the matter with the Board, to enable discussions with the Shareholder to resolve the matter.

In this respect, the RemCo's approach to remuneration policy sits within the same legal and fiduciary context as the Board's responsibilities for other business matters. The overall governance of FCE's remuneration policy lies with the RemCo. Responsibility for the individual application of FCE's remuneration policy rests with its Executive Directors, with oversight by the RemCo.

Overview of Approach to Remuneration in FCE

The RemCo regularly reviews its remuneration to ensure it is affordable and competitive over the long-term, attracts talent, incentivises high performance and good behaviours, and retains talent in a competitive market. It also benchmarks blue-chip companies across automotive and general industry, financial services and other sectors on pay and benefits.

The Bank is mindful of its banking status and its regulatory and compliance responsibilities in respect of its remuneration policy. Remuneration practices are based on robust performance management processes, which themselves involve assessing management behaviours, particularly as they relate to key Bank priorities such as lending risk, compliance and ethical business values. Conflict of interest is avoided by ensuring performance ratings and compensation decisions are made by a committee comprising managers at least one grade more senior than the grade of the employee being evaluated.

The Bank has a strong commitment to diversity, inclusion and equal opportunity. Ensuring compliance with equal pay legislation is a core element of its compensation philosophy.

Pillar 3 Disclosures

22 REMUNERATION DISCLOSURE CONTINUED

Governance and Decision Making

Remuneration matters in FCE are overseen by a Remuneration Committee (RemCo) of the Board of Directors. The committee is formed of the Non-Executive Directors. No employee is permitted to participate in discussions or decisions which directly relate to their own remuneration. FCE's Remuneration Policy is reviewed annually and most recently was approved at the Bank's Remuneration Committee meeting on 10th June 2020.

As detailed above, the Bank's remuneration policy reflects the global policy of its Shareholder. The intent of the RemCo is to adopt the Shareholder's remuneration policy, within the context of the Board's legal and regulatory responsibilities. The Legal Affairs Director, Executive Director Chief Risk Officer and the Human Resources Director provide subject matter expertise to the RemCo in its consideration of the Bank's remuneration policy.

The RemCo draws on the experience and knowledge of the independent Non-Executive Directors from their professional experience and remuneration oversight roles in other firms. The RemCo receives regular reports from the risk function during the year which includes risk exposure against agreed limits, and reviews financial data which includes forecast remuneration. This is done to ensure that remuneration is consistent with sound risk management. The RemCo ensures that the remuneration actions do not negatively impact the Bank's capital adequacy requirements

The RemCo undertakes the following role:

- Reviews the applicable compensation structures and processes in that they remain aligned with FCE's business requirements, financial position and are within the Board's established Risk Appetite.
- Reviews and provides feedback on the individual objectives of FCE Executives.
- Ensures that FCE is complying with the necessary regulatory requirements and that remuneration does not encourage inappropriate risk-taking.
- Provides an independent forum for the independent Non-Executive Directors to reflect on and provide feedback on the performance of FCE's Material Risk Takers.
- The RemCo has the delegated approval from the Board to approve the structure of awards made to FCE Material Risk Takers.
- Reviews the proposed compensation awards for FCE Material Risk Takers to ensure that they remain within tolerance of agreed compensation programme structures.
- Performs malus and clawback reviews as required.
- Risk Adjustment of the FCE Bonus Pool in line with FCE Risk Appetite framework.

Material Risk Takers are employees whose professional activities could have a material impact on the risk profile of the firm, as defined by Commission Delegated Regulation (EU) no 604/2014. The remuneration of Material Risk Takers is subject to the remuneration principles of the Remuneration Code.

The RemCo comprises four independent Non-Executive Directors. Support is provided by the Human Resources Director. The Chief Executive Officer and Chief Risk Officer are invited to attend when appropriate. The Chair of the Committee is a Non-Executive Director.

The Committee members are:

- N Ceeney: Independent Non-Executive Director & RemCo Chair
- J Reed: Senior Independent Non-Executive Director
- J Callender: Senior Independent Non-Executive Director (resigned 30th September 2020)
- T Ferreira: Independent Non-Executive Director
- B O'Connor: Independent Non-Executive Director (appointed 17th September 2020)

The Link between Pay and Performance

The Bank uses a robust objective setting process to ensure alignment of individual objectives to support the achievement of business strategy and goals across and through the organisation. The Bank uses a sound performance evaluation process which includes a "balanced scorecard" approach to set individual short-term, and longer-term objectives. Objectives are set, and assessed against, both financial and non-financial objectives, including compliance, risk management and leadership behaviours such as integrity.

Pillar 3 Disclosures

22 REMUNERATION DISCLOSURE CONTINUED

Appraisals are conducted annually by an employee's people leader by ensuring a fair and accurate performance evaluation based on what was accomplished during the performance year and how it was achieved through the lens of our Ford Truths. To ensure an accurate account of work and behaviours, feedback from work partners is considered, and peer calibration discussions are held where appropriate.

As part of our annual compensation planning process, within predetermined budgets, people leaders make compensation decisions based on their employee's accomplishment against objectives and how their behaviours modelled our Ford Truths.

The Bank's performance management and compensation philosophies, including its bonus programme, are structured to support the achievement of the Bank's ongoing business objectives by rewarding achievement of objectives linked directly to its strategic business priorities as identified in its business plan. These strategic priorities are cascaded through annualised objectives and policy deployment.

Conflict of interest is avoided by decisions on performance and remuneration being validated by peer calibration meetings (where appropriate) comprising employees at a more senior level than the employees being evaluated. All people leader compensation award decisions require next level people leader approval. Awards made under the Bank's variable pay programme for senior managers (Annual Incentive Compensation Plan) and Long-Term Incentive Programme are reviewed and approved by the Bank's Remuneration Committee, ensuring inputs from Risk and compliance are factored into employee compensation awards.
Robust control frameworks within the Bank ensure that business is conducted within planned risk appetites and the RemCo receives regular updates on risk and compliance. The impact of variable remuneration is included in the regular financial planning reviews presented to the RemCo and the board throughout the year.

Composition of Remuneration Programmes

Variable compensation comprises:

- Cash bonus (Managers at mid-level and above are eligible for AICP, in Germany kower level management are eligible for a local bonus plan)
- Time-based restricted stock units which vest pro rata over 3 years (Managers at mid-level and above)
- Performance-based restricted stock units which vest over 3 years, and are linked to corporate performance (Executive level Managers and above)

Deferred awards for Material Risk Takers include malus provisions which may be applied in the event of employee misconduct or where the business has suffered a material failure of risk management. Remuneration is delivered to Material Risk Takers in a way which is compliant with the requirements of the Regulators Remuneration Code.

The remuneration policy applies the same overarching principles and practices to all employees, though the exact structure and quantum of individual packages varies by business, geography and role.

Communication

The Bank is committed to clear and timely communication of its compensation policy and practices. This includes clarity on which business behaviours will positively affect awards, and which will not. The Bank reviews, as required, the content and method of communication in order to increase employee understanding and engagement.

Key Remuneration Elements

The following remuneration elements are discretionary. Programmes may be cancelled if business circumstances require it. Discretionary awards may be withdrawn if the relevant employee is found to have behaved in a manner contrary to the interests of the Bank. The individual's variable remuneration is based on performance to objectives and behaviours and is subject to appropriate limits (capped at 2:1 variable to fixed ratio for UK employees), as approved by the shareholder on 1st January 2014.

Base Pay Adjustments: Pay for Performance Programmes

For the majority of the Bank's employees, base pay is the most significant element of total remuneration; they do not have any variable remuneration. Pay for performance is fundamental to the Bank's remuneration philosophy and applies to the base pay increases for all employees, and variable pay where it is in place. We reward individuals for performance and contribution to business success.

Pillar 3 Disclosures

22 REMUNERATION DISCLOSURE CONTINUED

Pay for Performance programmes are considered annually, taking into account factors including business results, affordability, external competitiveness, mandated/negotiated increases and inflation. Pay for Performance programmes make base pay adjustments and are typically effective April 1 and communicated in the first quarter. The Bank has the discretion to defer or cancel awards depending on business circumstances.

Individual base pay increases are based on performance against balanced scorecard objectives, including behaviours, and will also be influenced by an employee's position in the salary range.

Annual Incentive Compensation Plan (Bonus)

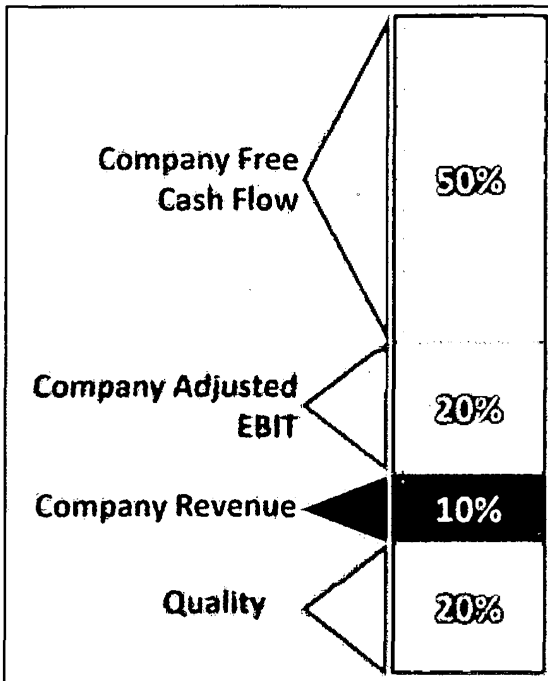
AICP is a global incentive programme designed to align Ford Motor Company and business unit performance on key business metrics in a way which enables it to operate profitably, finance its business plan and improve the overall balance sheet. Managers at mid-level and above participate in the Annual Incentive Compensation Plan (AICP) of the Ford Motor Company. The awards are made on a discretionary basis and based upon performance of the business. The awards are made for performance across a calendar year, and pay-out is made the following year, dependent on achievement of targets. The bonus programme is fully flexible and may be cancelled if business targets are not met.

Eligible employees at this level amount to 5% (December 2020) of the Bank's total employees.

Under AICP, the shareholder sets annual monetary target awards based on assumed 100% pay-out percentage for each employee based on their respective management level and the competitive market practices of his/her respective country. The sum of the target amounts across all employees, multiplied by the AICP pay-out percentage, represents the overall cost of the programme.

The AICP pay-out percentage is dependent on the overall performance of the Shareholder and calculated on a predetermined formula. A minimum level of performance is required on all metrics. This means that achievement is required across the entire AICP scorecard to generate a bonus.

The AICP programme makes payments as a cash bonus, share programmes are detailed separately within this document.



Company Free Cash Flow primarily reflects Adjusted Earnings Before Interest & Taxes (EBIT) (excluding special items) for Automotive, Mobility and Corporate Other segments, plus net capital spending, changes in working capital, and interest on debt.

Company Adjusted EBIT (excluding special items) is the adjusted Company earnings before interest and tax.

Company Revenue is the inflow of economic benefits received from providing goods and services. Ford has three components to externally reported Company revenue that include:

- **Automotive** - primarily the sales of vehicles, parts, and accessories (excl. revenue from vehicles produced and distributed by unconsolidated subsidiaries)
- **Mobility** - revenue generated from mobility services
- **Ford Credit** - primarily interest on finance receivables and operating leases (net of certain deferred origination costs that are included as a reduction of financing revenue)

Quality includes these three elements and weightings measured at 3 months-in-service:

- Things Gone Wrong (TGW) – 1/3
- Warranty Spend – 1/3
- Customer Satisfaction – 1/3

For 2020 performance year, the following performance metrics and respective weightings are used as the basis for determining FCE incentive award pay-outs.

Pillar 3 Disclosures

22 REMUNERATION DISCLOSURE CONTINUED

The actual pay-out is based upon the individual performance assessment and compensation planning process (details of which are contained in the section "Link between pay and Performance" above).

The Remuneration Committee has the authority to reduce AICP if it determines that risk adjustments should be applied to the bonus pool (for further details see "Bonus Pool Risk Adjustments").

Local Bonus Plan Germany

Lower level management (Leadership Level 6) in Germany are eligible to participate in a locally negotiated bonus plan. Managers have flexibility to award between 0% to 150% of the bonus target award during the annual compensation planning process. Of the total 98 MRTs during 2020, 5 were eligible for this plan.

Bonus Pool Risk Adjustments

In order to ensure that FCE's remuneration is consistent with sound risk management, on an annual basis, the RemCo will conduct a bonus pool risk adjustment review, in order to determine if there has been any material or persistent breach of its risk appetite. This review includes the following types of risk:

- Financial (Earnings)
- Capital and Liquidity
- Operational and Infrastructure
- Business Conduct & Reputational

In line with the PRA / FCA guidelines, FCE defines its bonus pool as the sum of all the potential bonus awards within FCE following the application of the shareholder pay-out percentage.

In the event of a bonus pool reduction being required, an additional FCE risk adjustment factor will be applied to individual bonus targets prior to determining individual bonus awards. Employees will be notified in the event such an adjustment is made.

Long-Term Incentive Plan

Managers at mid-level and above participate in a global equity–based long-term incentive program comprising time-based and performance-based restricted stock units. This is known as the LTI Plan. As above, participating employees amount to 4% (December 2020) of the Bank's total employees.

The plan is designed to reward and incentive LL5+ leaders for sustaining high performance over time. The Bank considers the LTI plan an important retention tool for key skills.

- Time based restricted stock units (TB-RSUs) vest over a three-year period, 33% after the first year, 33% after the second year, and 34% after the third year. The restriction period adds a longer-term element to focus behaviour and decision-making beyond the present year.
- Executive level managers receive both TB-RSUs and performance based restricted stock units (PB-RSUs). Performance is measured through a mix of internal and external financial metrics over a three-year period, at which point the RSU's vest.

Dividends that may be awarded would normally be awarded as additional shares.

The shareholder sets US dollar initial awards for each management level. The number of restricted stock units (RSUs) awarded to an employee is determined based on the fair market value of Ford Motor Company common stock on the date of grant. Specifically, the dollar value of the RSU grant is divided by the fair market value on the grant date to determine the number of RSUs awarded to the employee.

Individual awards are discretionary and are adjusted based upon an assessment of multiple factors, including performance versus peers over time, expertise and critical skills, feedback and behaviours, and potential for advancement and impact to the business in the future. Vesting is subject to malus, and prudent financial control provisions are in line with the Remuneration Code.

Pillar 3 Disclosures

22 REMUNERATION DISCLOSURE CONTINUED

Variable compensation for MRTs subject to remuneration code pay-out rules

The PRA and FCA have provided guidance for firms that divides them into three levels ("Proportionality Levels"). Over recent years FCE has been considered a Level 3 firm, as the size of its relevant total assets have been under £15 billion (based on a three-year average). However, in 2018 Performance Year (2019 Pay-out), FCE exceeded the £15 billion threshold and is now considered a Level 2 firm.

As a proportionality level 2 firm, some employees may be subject to remuneration code pay out rules which include, bonus deferrals, payments in shares /instruments, malus and clawback provisions.

For the few senior managers for which these rules apply, the total variable pay that would otherwise be awarded through AICP and LTIP programmes, is restructured in order to meet the requirements of the remuneration code. Employees are advised by the company in the event this is applicable.

Other Benefits

The Bank develops benefits in line with its overall strategy and philosophy on offering competitive employee remuneration packages in each home market. Benefit packages will vary by role, differ between countries and may include pension schemes, healthcare, death-service and car benefits.

Key Remuneration Data

The following data reflects base pay delivered in the performance year of 2020, and variable pay relating to performance in 2020 (delivered in 2021). The bank is not structured in such a way to breakdown the data by business area.

During the year, no Material Risk Taker received total remuneration in excess of 1 million Euros, which was confirmed to the Regulator as part of the high earners reporting process.

	2020 Performance (2021 Pay-out) £ mil				2019 Performance (2020 Pay-out) £ mil			
	Number of staff	Fixed (Base)	Variable (AICP)	Variable (LTIP)	Number of staff	Fixed (Base)	Variable (AICP)	Variable (LTIP)
Remuneration								
Total Aggregate Remuneration	98	8.4	0.5	0.7	108	8.7	0.6	0.7
Senior Managers	4	0.6	0.2	0.2	3	0.6	0.2	0.2
Material Risk Takers	94	7.8	0.3	0.5	105	8.1	0.4	0.5

FORD CREDIT

Other Information

Glossary of Defined Terms

2020 Annual Report-FCE's consolidated annual financial statements as at and for the year ended 31 December 2020.

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.

CET1 Capital-Common Equity Tier 1 capital as defined in the Capital Requirements Regulation. This is the top quality capital tier within Own Funds.

CET1 Capital Ratio-Common Equity Tier 1 capital divided by the end of period risk exposure amount.

Company-Means FCE Bank plc including all its European Branches, but excluding its subsidiaries and SEs.

CRDIV-The 4th iteration of the Capital Requirements Directive formally published in the Official Journal of the EU on 27 June 2013. This is made up of the Capital Requirements Directive, (2013/36/EU), (CRD), which must be implemented through national laws, and the Capital Requirements Regulation (EU/575/2013), (CRR), which is directly applicable to firms across the EU. CRDIV is intended to implement the Basel III agreement in the EU.

CRR-The Capital Requirements Regulation (EU/575/2013) part of CRDIV.

Dealer or Dealership-A wholesaler franchised directly by Ford, to provide vehicle sales, service, repair and financing.

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 EUR 15 billion.

Europe-The 12 markets where FCE provided financial services. These were: Austria, Britain, Czech Republic, France, Germany, Hungary, Ireland, Italy, Poland, Portugal, Spain, and Switzerland.

FCA-The Financial Conduct Authority is the statutory body responsible for conduct regulation and supervision of UK authorised firms (from 1 April 2013), also the prudential regulator for financial services firms not prudentially regulated by the PRA.

FCI-Ford Credit International LLC, a company incorporated under the laws of Delaware USA and a direct subsidiary of Ford Credit.

FCSH-FCSH GmbH a limited liability company incorporated under the laws of Switzerland and a direct subsidiary of FCI.

Ford Credit or FMCC-Ford Motor Credit Company LLC, a limited liability company organised 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 Group's ultimate parent company. In some cases, this term may mean Ford Motor Company and all or some of its affiliates.

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 externalises the finance, leasing, maintenance and repair services for current and future portfolios of commercial operating leases to a preferred third party under the 'Ford Lease' or 'Ford Business Partner' brand.

Fully Loaded-When a measure is presented or described as being on a fully loaded basis it is calculated without applying the transitional provisions set out in Part Ten of the CRR. This can also be referred to as 'end point'.

Gross loans and advances to customers-Total payments remaining to be collected on loans and advances to customers (refer to Note 12 'Loans and advances to customers').

Group or FCE-Means the Company and its subsidiaries and SEs.

Glossary of Defined Terms

IAS-International Accounting Standards.

ICAAP-Internal Capital Adequacy Assessment Process. FCE's annual process, as defined in PRA regulation, by which is asses the level of capital that is adequate to cover the risks to which it is or might be exposed, incorporating stress testing, scenario analysis and consistent with its risk appetite.

IFRS-International Financial Reporting Standards.

ILAAP-Internal Liquidity Adequacy Assessment Process. FCE's annual process, as defined in PRA regulation, by which it identifies, measures, managers and monitors liquidity and funding risks under stress scenarios and across different time horizons, consistent with its risk appetite.

Net loans and advances to customers-Loans and advances to customers as reported in the balance sheet representing 'Gross loans and advances to customers' including any deferred costs/fees and less provisions and unearned finance income and unearned interest supplements from related parties.

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.

Own Funds-The own funds of an institution is the sum of its Tier 1 and Tier 2 capital.

Past Due- Is where any amount of principal, interest or fee has not been paid at the date it was due. The exposure value is the whole carrying amount.

Pillar 1-The part of the Basel framework which sets the minimum capital requirements for institutions to hold.

Pillar 2-Supervisory Review Process where regulators evaluate the activities and risk profiles of individual institutions to determine whether they should hold higher levels of capital than the minimum capital requirements of Pillar 1.

Pillar 3-The pillar of the Basel framework which focuses on the public disclosures of institutions with the aim of enhancing transparency for all stakeholders.

PRA-The Prudential Regulation Authority is the statutory body responsible for the prudential regulation of banks, building societies, credit unions, insurers and major investment firms in the UK (from 1 April 2013). The PRA is a subsidiary of the Bank of England.

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.

Risk Based Equity or 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 location's 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.

Risk Exposure Amount-For credit risk, (including counterparty credit risk), the risk exposure amount is the risk weighted exposure amount. For Credit Valuation Adjustment, (CVA risk), market risk and operational risk, the Pillar 1 capital requirement is calculated initially according to the rules contained in the CRR and the risk exposure amount derived from that (by applying a factor of 12.5).

Risk Weighted Exposure Amount or RWEA-For credit risk, (including counterparty credit risk), the risk weighted exposure amount is the value of the exposures multiplied by the appropriate percentage risk weighting of the relevant exposure class as defined in the CRR.

Glossary of Defined Terms

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 SE. 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.

Structured Entities or SE-a bankruptcy-remote entity whose operations are limited to the acquisition and financing of specific assets (which may include the issue of asset backed securities and making payments on these securities) and in which FCE usually has no legal ownership or management control.

Tier 1 Capital-As FCE has no additional Tier 1 capital, its Tier 1 capital is the same as its CET1 capital and comprises shareholder funds net of certain deductions.

Tier 2 Capital-FCE's Tier 2 capital comprises of subordinated debt.

Total Capital Ratio-FCE's Own Funds divided by the end of period risk exposure amount.

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.

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.	
• 'Annual Report' • 'Pillar 3 Disclosures (remuneration)' Footnote 1 • 'Pillar 3 Disclosures (excl. Remuneration)' Footnote 1 • Management Statement	http://www.fcebank.com/investor-center
Ford Motor Company (Ultimate Parent Company) including:	
• 'Quarterly Reports' • 'Annual Reports' • 'SEC Filings' Footnotes 2 and 3	http://corporate.ford.com/investors.html To access from the above link click on 'Reports and Filings' within the 'Investors' menu.
Ford Motor Credit Company including:	
• 'Company Reports' Footnote 3 • 'Company Events' • 'Asset-Backed Securitisation' Footnote 4	http://credit.ford.com/investor-center
Luxembourg's Stock Exchange which includes	
• Euro Medium Term Note Base Prospectus (refer to Note 21 'Financial Liabilities')	https://www.bourse.lu To access search for 'FCE'
Financial Reporting Council	
• The UK Corporate Governance Code	https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance.aspx

Additional information

Footnote 1: From 2015, FCE's Pillar 3 disclosures (excluding Remuneration) are included in the Annual Report. From 2020, FCE's Pillar 3 disclosures (remuneration) are included in the Annual Report. For prior years, separate documents were produced.

Footnote 2: Securities and Exchange Commission (SEC)

Footnote 3: SEC filings include both SEC Form 10-K Annual Report and SEC Form 10-Q Quarterly Reports

Footnote 4: 'Asset-Backed Securitisation' incorporates European retail public securitisation data including the following report types:

- Prospectuses
- Monthly Investor Reports