AMENDED

FCE Bank plc

ANNUAL REPORT

For the year ended 31 December 2022

FORD CREDIT

2022

Contents

Approval of the 2022 Strategic Report

The Strategic Report for the year ended 31 December 2022 as set out on pages 3 to 37 was approved by the Board on 15 March 2023.

Carlos Treadway

ON BEHALF OF THE BOARD
Carlos Treadway
Chief Executive Officer
15 March 2023

Company Information

Registered Name:	FCE Bank plc	
Directors:	Marlene Martel	Chair, Non-Executive Director
	Narpal Ahluwalia	Non-Executive Director (resigned 2nd December 2022)
	Natalie Ceeney	Non-Executive Director
	Talita Ferreira	Non-Executive Director
	Paul Kiernan	Executive Director, Finance
	Brendan O'Connor	Non-Executive Director
	John Reed	Senior Independent Director
	Keith Robinson	Executive Director, Chief Risk Officer
	Carlos Treadway	Chief Executive Officer
Company Secretaries:	Abimbola Adesanya Howard Cohen	
Registered Office:	Arterial Road Laindon Essex SS15 6EE United Kingdom	
Registered Number:	00772784	
Independent Auditors:	BDO LLP 55 Baker Street London W1U 7EU United Kingdom	
Website:	**www.fcebank.com**	

Business Model

Organisational Structure

FCE Bank plc (FCE), a public limited company incorporated in England and Wales, is a wholly-owned subsidiary of Ford ECO GmbH (Ford ECO) and is 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) and regulated by the PRA and the Financial Conduct Authority (FCA).

FCE now operates in the UK and 8 other European countries following a transfer of its subsidiaries in Switzerland, Hungary and Czech Republic to its parent, Ford ECO GmbH during the year. FCE operates through a branch and subsidiary network, providing branded financial services for Ford. FCE provides loans to approximately 702,000 retail customers in the UK, Germany, Italy, France and Spain and provides wholesale financing to around 713 dealer Groups. FCE's largest markets are the UK and Germany, with the UK market representing 35% of the total FCE portfolio and Germany representing 29%, as shown in the chart on page 8. The Company also has a Worldwide Trade Finance (WWTF) division, which provides finance to distributors and importers in about 70 countries.

FCE provides savings products to approximately 166,000 savings customers in the UK and Germany.

Customers and Products

FCE is integrally tied to Ford; it aims to be the reason why customers choose and stay with Ford Motor Company through a focus on:

- Lifetime customer relationships that surprise and delight customers through moments that matter
- An integrated, always-on, go-to-market strategy
- Innovative financing solutions to support Ford's electrification plans
- A cost-effective and efficient operating structure
- Strong risk management, ensuring regulatory compliance

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 customers to purchase or lease passenger and commercial vehicles
- Access to insurance products to protect customers

FCE supports **Ford dealers** in the sale of 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:

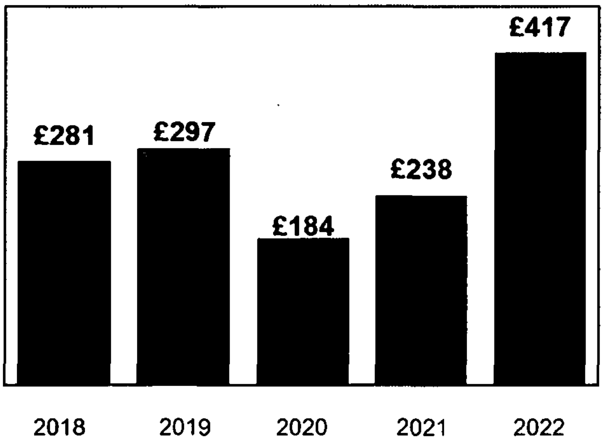
- A range of savings products that are easy to open, easy to manage and highly secure
- Competitive rates compared to the high street banks and an attentive, personal service
- A promise for existing customers to enjoy the same rate as new customers

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

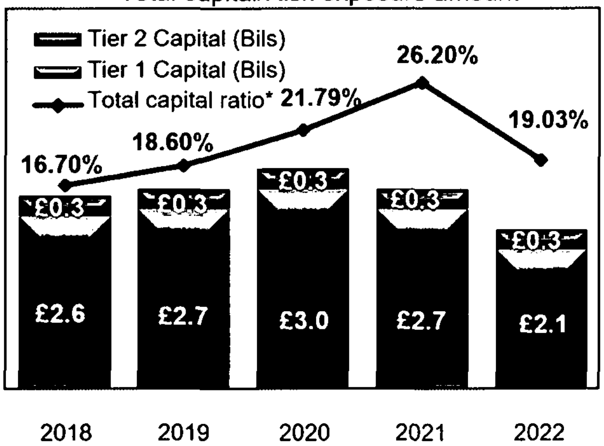
- A branded finance network dedicated to supporting the sale of Ford products
- High quality customer service that has been proven to increase customer loyalty to the Ford brand
- Financial risk management support to ensure continuity and viability of the Ford dealer distribution network
- Specialist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

Business Performance

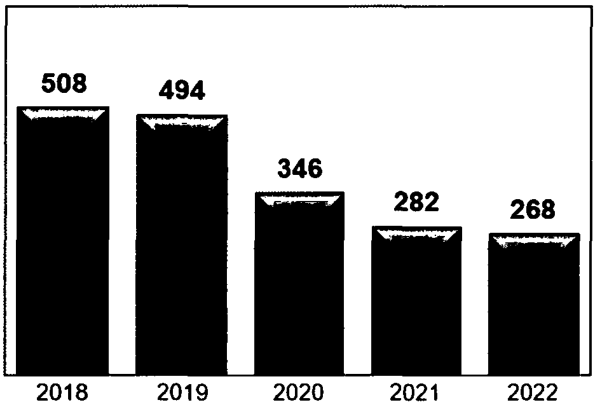
Profit before tax, PBT (Mils)



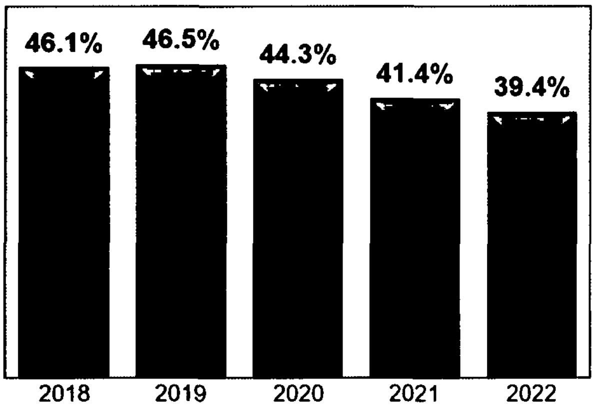
Total capital
*Total capital/Risk exposure amount



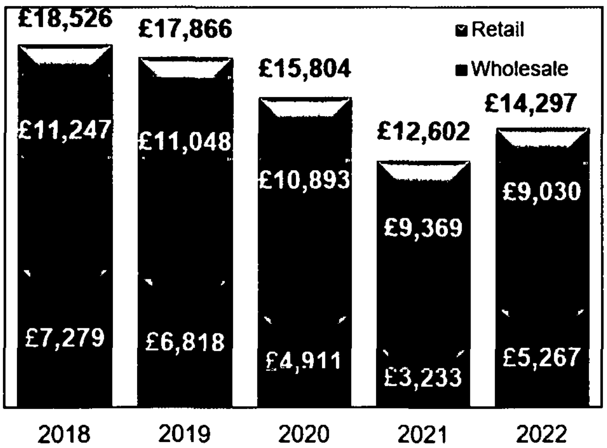
Annual originations of retail/finance lease contracts in top 5 locations (000s)



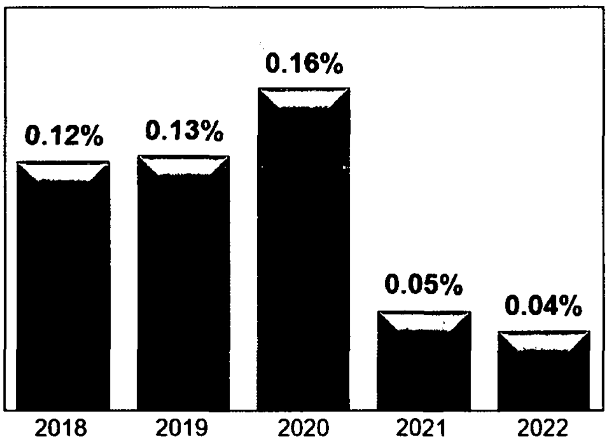
Penetration
FCE new contracts/Ford sales top 5 locations



Total net loans and advances (Mils)



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



Business Performance

Sales

Although FCE's penetration remained strong, retail contracts for the five largest locations reduced to approximately 268,000 in 2022 from 282,000 in 2021 reflecting the continued impact of the global semi-conductor shortage on vehicle supply. Ford also continued to face supplier disruptions due to labour shortages and other production issues.

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)

Net Promoter Score (NPS) is the primary metric measured as part of the CX programme. NPS is measured with a single question 'How likely are you to recommend FCE to a friend or colleague?' The NPS 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 NPS is reported as a number ranging from -100 to +100.

In 2022, the CX programme was expanded to include a Relationship NPS (rNPS). This measures a customer's overall relationship with Ford Credit.

2022 Net Promoter Score (NPS) Performance

All Touchpoints combined	2022	2021
FCE's Customer NPS (a)	52	45
Ford Money NPS (b)	62	46

a. Metrics for customers in FCE's largest markets
b. 2022 data includes UK and Germany (from mid-year 2021)

In 2022, FCE's Customer NPS was up 7 points from 2021. Ford Money NPS was up 16 points from 2021.

The large gains in FCE NPS are attributed to improvements across a number of areas including: end of contract settlement process, payments, timeliness of issue resolution and documentation (reducing complexity of documents and more timely issuance of documents). Also in 2022, FCE has developed financing solutions to support customers who are experiencing vehicle delivery delays due to semi-conductor issues.

Ford Savings Customer NPS stood at 62 at year-end up from 46 in the prior year. The increase is attributed to improvements embedded in both UK and Germany offerings, including enhancements to withdrawal and deposit timings in the UK, App enhancements in both locations and moving to paperless account opening in Germany as well as an improving interest rate environment in both regions.

Customer feedback from the surveys is available in real time via an online dashboard. FCE receives an alert when a customer provides a rating between 0-6 (a detractor) on the recommend question. A close-the-loop process has been implemented, whereby all 'detractors' are re-contacted to address any issues, concerns or questions raised in the survey. In 2022, the re-contact process was expanded to include 'passive' customers (rating of 7 or 8 on the recommend question). The majority of comments from customers about their experience with FCE and Ford Money continue to be very positive. Customer ratings of 'Treated Fairly' and 'Trust' were stable versus prior year.

Dealer Experience

FCE discontinued its annual dealer satisfaction survey in 2019 but continues to obtain dealer feedback through a variety of sources including the Dealer Advisory Board and leveraging insights from ongoing Ford Motor Company Surveys. In 2022, FCE leveraged an existing Ford of Europe dealer survey to gain feedback from dealers relating to Ford Credit products and services. This has provided useful insight and has helped inform and refine existing dealer improvement plans.

Business Performance

Profit Performance

FCE's Profit Before Tax (PBT) of £417 million in 2022 increased by £179 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 £261 million increased by £51 million year over year. This is explained primarily by favourable used vehicle values and higher financing margin.

FCE's financial results have benefited from exceptional mark-to-market gains on its portfolio of derivatives as a result of movements in central bank interest rates. Subject to future changes in interest rates, these gains will unwind in future periods as these derivatives, which are used to hedge its fixed rate loans liquidate.

Profit performance	Note	2022 £ mil	2021 £ mil
Profit from operating activities		261	210
Fair value adjustments to financial instruments	10	128	46
Gain/(loss) on foreign exchange	7	28	(18)
Profit before tax (PBT)		**417**	**238**

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	2022 £ mil	2021 £ mil
A	Total income		516	599
B(i)	Depreciation of operating lease vehicles		(28)	(130)
B(ii	Gain/(Loss) on disposal of operating leases		30	(16)
C	Net credit losses*		(6)	(7)
D	Operating expenses	5	(255)	(239)
E	Profit before tax		417	238
F	Total assets		17,803	15,065
	Additional data:			
G	Average net loans and advances to customers		13,342	13,793
	Key performance indicators:			
	Margin ratio ([A+B(i)+B(ii)]/G)		3.88%	3.28%
	Credit loss ratio (C/G)		0.04%	0.05%
	Cost efficiency ratio (D/G)		1.91%	1.73%
	Return on Assets (E/F)		2.34%	1.58%

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

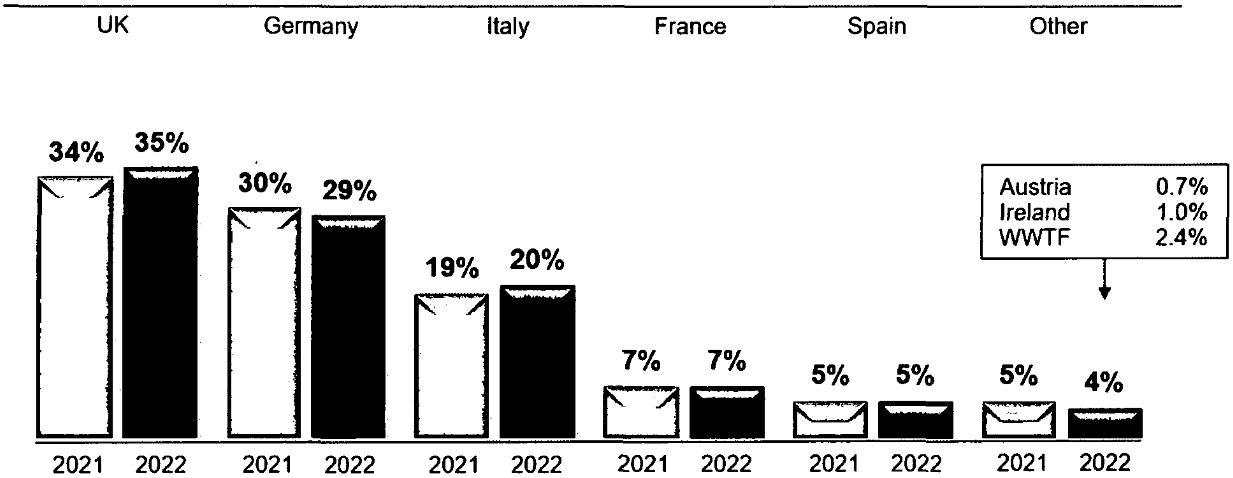
Business Performance

Net Loans and Advances to Customers

FCE's loan portfolio grew in 2022 with net loans and advances increasing to £14.3 billion in 2022 from the 2021 year end position of £12.6 billion reflecting increased wholesale lending as dealer inventories began to normalise following the impact of COVID-19 and reduced vehicle production as a result of ongoing shortages of semi-conductors.

An analysis of FCE's net loans and advances by market as at 31 December 2022 and 31 December 2021 is set out in the chart below.

Analysis of net loans and advances to customers by market

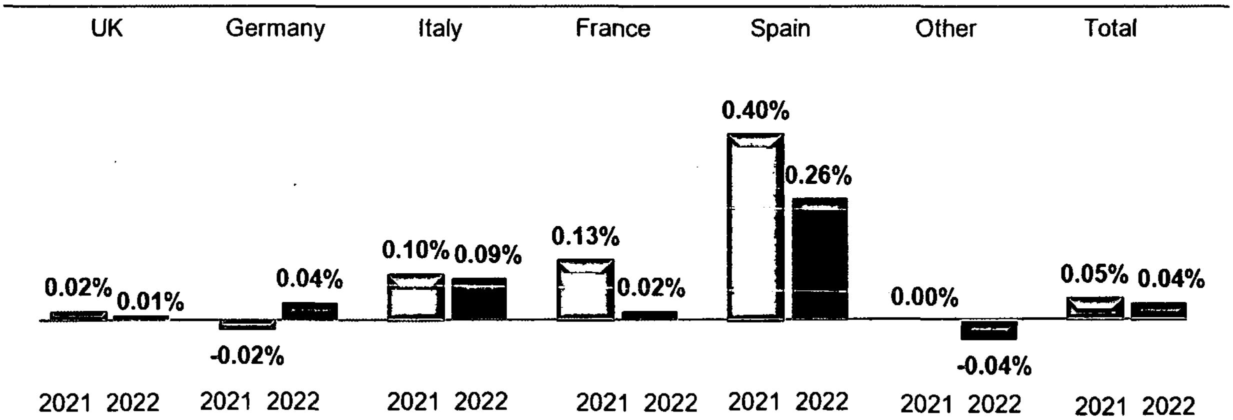


Net Credit Losses

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 on total receivables is 0.04% (2021: 0.05%). The retail loss ratio is 0.08% (2021: 0.09%) and the wholesale loss ratio is (0.04)% (2021: 0.08%).

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 the Internal Capital Adequacy Assessment Process (ICAAP) and minimum regulatory levels.

FCE paid a dividend of £600 million in 2022 (2021 £300 million). FCE's future dividend planning will consider future receivables levels and profits while maintaining a capital ratio that exceeds regulatory requirements and internal targets.

As at 31 December 2022, FCE's Common Equity Tier 1 (CET 1) ratio was 16.55% (2021: 23.49%) and the total capital ratio was 19.03% (2021: 26.20%). During 2022, FCE's leverage ratio remained above the regulatory minimum. More details on FCE's capital and leverage ratio can be found in the 'Pillar 3 Disclosure' published separately.

Funding Sources

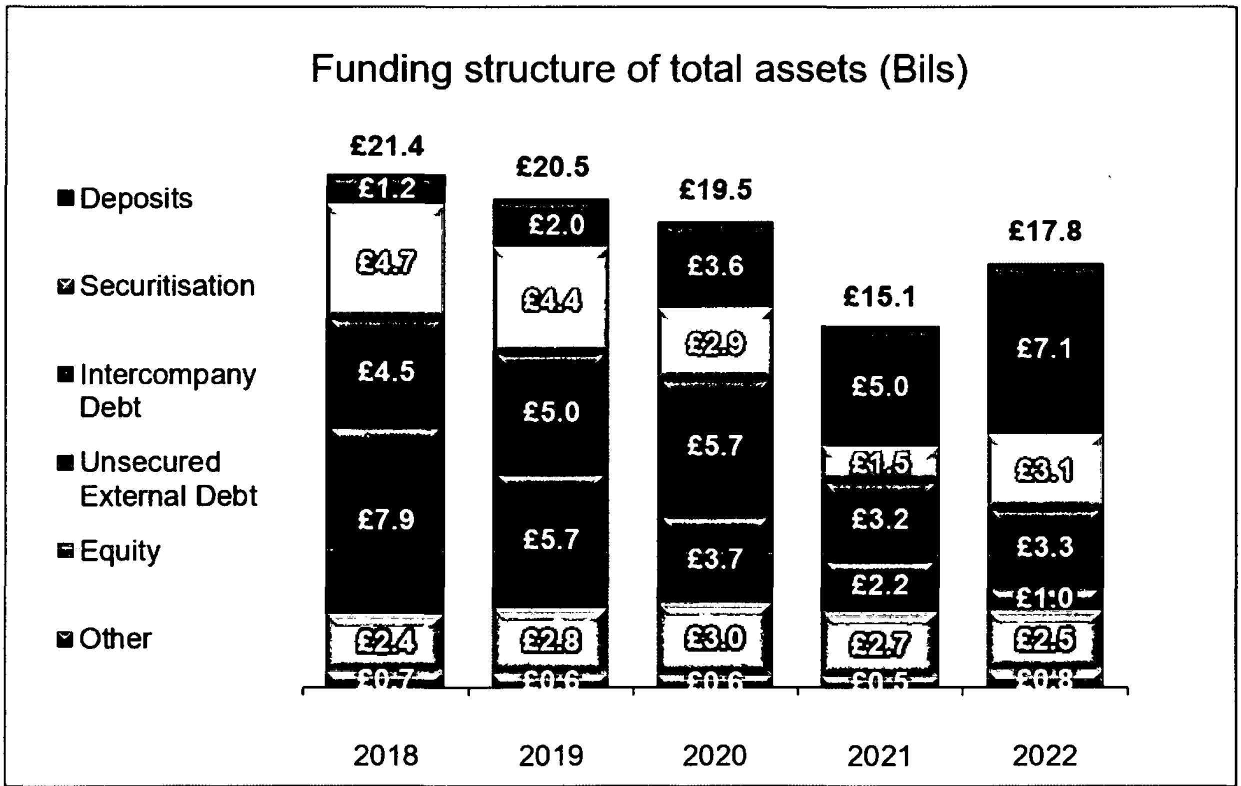
FCE's funding strategy focuses on diversification, accessing a variety of markets, channels and investors, including Central Bank funding programmes.The funding strategy is designed to optimise the level of encumbrance in line with risk appetites.

FCE's Retail Deposits totalled £7.1 billion as at 31 December 2022 (2021: £5.0 billion), funding 40% of FCE's total assets.

In the secured funding segment, FCE continued to pledge eligible assets as collateral in the form of structured asset backed securities, taking the opportunity to utilise the Open Market Operations with the European Central Bank and the Sterling Monetary Framework with the Bank of England. In addition, FCE completed an Italian Private Retail securitisation transaction of €1 billion in October 2022.

Levels of inter-company loans increased slightly and external debt reduced in 2022, with no new external issuances, reflecting lower loans and advances.

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



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 has standalone ratings from Moody's (received in 2022) and S&P, both rating FCE at investment grade. The rating from Fitch is based on the rating for 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+	Baa3	BBB+
Short -Term Unsecured	B	P-3	NR
Outlook/Trend	Positive	Stable	Stable

* Rating for Ford and Ford Credit

In addition Ford Bank GmbH (FBG) was rated by Moody's for the first time in 2022, receiving an investment grade rating of Baa2, one notch better than FCE.

Future Prospects

The automotive industry is embarking on a period of change as the market moves towards electric vehicles and different distribution models. FCE continually reviews its operations and is committed to ensuring it takes appropriate steps to maintain its long-term competitiveness by providing products and services that are relevant to customers of Ford's vehicles at a competitive cost and retaining the appropriate skills, capital and liquidity resources to meet its regulatory requirements.

During 2023, FCE plans to continue to develop its digital capabilities to enable the successful implementation of products and services to support customers of Ford's expanding range of electric and commercial vehicles. This will include strengthening its Product Organisation and commencing the deployment of a new flexible IT platform which will launch in the UK in 2023 before rolling out to other locations. In support of Ford's electric vehicle strategy, FCE plans on creating finance solutions that meet the needs of consumers looking to transition to an electric vehicle including financing options for EV accessories, such as home charging units.

FCE expects ongoing semi-conductor shortages and supply chain issues will continue to moderate and that the resulting increases in vehicle production and sales should lead to higher volumes of loans and advances FCE anticipates 'Net loans and advances to customers' to be in the range of £17.6 billion to £18.6 billion by the end of 2023, although the outlook remains uncertain and subject to continuous change based upon Ford's latest production forecasts.

FCE recognises that many of its customers are experiencing higher costs of living as food and energy prices grow and central banks respond to increasing inflation with interest rate rises. The ongoing impact in European markets is uncertain and FCE will continue to use the tools available to closely monitor the situation, providing appropriate support to affected customers. 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 these factors and the increases in credit losses that could result from a severe recession.

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 aims to provide stable funding and risk management throughout all economic cycles.

Its business strategy is to be a secured lender, its loans collateralised 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.

FCE's lending portfolio is driven by Ford vehicle production and sales, where higher sales are likely to drive higher capital and liquidity requirements. In a stressed environment where Ford sales decline, FCE is likely to see 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 Enterprise Risk Management (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 (RAF) has been developed based on over 60 years of operating experience in the automotive lending sector. The RAF defines the amount of risk that FCE is willing to accept in pursuit of its long-term objectives, and is Board-approved and integrated within the governance structure of FCE. Through the close monitoring of risk measures against approved tolerances, the RAF informs the day-to-day management of the principal risks to which FCE is exposed, and mandates escalation of out-of-tolerance positions so that the risk can be managed, with outcomes such as tolerate, treat, transfer or terminate.

FCE's key metrics include credit loss ratios, liquidity adequacy, capital adequacy, cyber risk and operational risk and operational 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 comprises 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 reports 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 Board 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 Board Risk Committee, Board 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.

Board Risk Committee

The Committee monitors and reviews FCE's systems for risk management and compliance with financial services legislation and regulatory requirements. The Committee met four times during 2022.

The Chair of the Board 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 FCE'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, Large Exposure and Outsourcing Arrangements, in each case ensuring the policies are consistent with FCE's strategy and risk appetite
- Operational Risk and Operational Resilience oversight delegated by the Board
- Provide direction on establishing the bank cyber resilience strategy
- Environmental, social and governance risk and model governance risk

Business Environment

Whistleblowing

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

Principal Risks and Uncertainties

FCE defines its principal risks as the key risks set out on pages 14 to 18. FCE conducts horizon scans to facilitate the early detection and qualitative assessment of emerging threats to and opportunities for its business model, and how they might potentially impact current policy and processes. The assessments are used to inform the Board's long-term strategic planning, and to make present policy more resilient to future uncertainty. Horizon scanning ensures that potentially high-impact events, even if unlikely, are considered.

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

In recent years the global automotive industry has faced a significant shortage of semi-conductors and other components vital for the production of new vehicles combined with logistics issues creating delivery constraints. A shortage of new vehicles and delivery delays, can cause a significant disruption to Ford's sales. This may negatively impact FCE's business, as the generation of new loans and advances is dependent upon the sale of Ford vehicles.

FCE and its customers face various economic challenges: during 2022 inflation in Europe exceeded ten percent, interest rates were the highest since 2009, the values of the Euro and Pound versus the Dollar dropped to significant lows, and many markets are expecting to be in recession in 2023. FCE expects these headwinds to have a negative impact on vehicle sales and drive higher default rates within its retail portfolio. A sustained decline in sales could have a significant adverse effect on dealer profitability and creditworthiness, albeit the dealer network has strengthened in the period after COVID 19.

FCE is planning and investing for substantial changes to its business model in anticipation of the move of vehicle production to electric vehicles, changes in Ford's distribution strategy and the resulting shifts in customer financing needs and service expectations. There is a risk that if FCE's plans are executed incorrectly or the market evolves in unexpected ways that FCE's relevance to Ford sales and its penetration may decline.

FCE's ability to obtain unsecured and intercompany funding at a reasonable cost is dependent on its and FMCC's credit ratings or their 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.

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.

Business Environment

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 or a 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 granting of payment deferrals to provide short-term support to its retail, leasing and wholesale customers.

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 give more detail on FCE's credit risk exposures, their relationship to FCE's Statement of Financial Position and the capital requirements.

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 contracts introduced through a dealer to individual consumers, sole traders and businesses, as well as assets leased under finance leases.

Retail contracts are primarily fixed-rate, retail loans 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 loans 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. Statistic-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.

Vehicle 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 uncollectible.

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

Business Environment

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.

With respect to Trade Cycle Management (TCM) contracts, which represent the majority of finance plans whereby FCE have residual value risk, vehicle residual values are typically set below expected market value. This approach generates equity for the customer at the end of the contract and provides protection for FCE against residual value risk. The unforeseen impact of the industry-wide reductions in new vehicle supply (as a result of reduced availability of semi-conductors), has resulted in a significant increase in used vehicle values at this time and increased future forecast values from external trade guides. FCE expects these values to normalise over time as new vehicle supply constraints ease. FCE continues to monitor used values and seek independent third party trade guide opinion in its decision making processes.

As the industry transitions to electric vehicles, FCE is continuing to grow and enhance its knowledge and strategy for both electric vehicles (EV) and internal combustion engine (ICE) residual value setting.

With respect to FCE's operating lease portfolio, residual value 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'.

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 interest and include receivables from dealerships that in some cases are either partly or wholly owned by Ford.

The wholesale portfolio of borrowers is considered healthy. 2022 has seen vehicle supply chain challenges continue. While this has led to lower new vehicle sales and receivable volume opportunity for FCE; it has also increased profit margin performance for the dealer network; improving the risk profile of the wholesale lending portfolio. This sustained good performance has allowed dealer partners to repay governmental support from COVID-19 and renew their cash reserves.

In the second half of the year inflationary pressures have created economic headwinds for dealers and consumers across all European markets. This has started to tighten dealers margins. However, consumer demand remained strong in comparison to supply of new and used vehicles. FCE has continued to work with each individual dealer partner to understand the impact of these challenges on their business and the support required.

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

Business Environment

Counterparty Credit Risk

FCE could incur a credit loss if the counterparty to an interest rate or foreign currency derivative with FCE defaults. This is known as counterparty credit risk and is mitigated by the cash collateral that FCE exchanges with most of its counterparties under margin arrangements. 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 published separately.

In addition to a credit loss caused by a counterparty default, banks can also suffer mark-to-market losses associated with the deterioration of a counterparty's creditworthiness, known as credit valuation adjustment (CVA) risk. FCE does not consider CVA risk to be a key risk. FCE holds Pillar 1 capital for CVA risk, calculated under the Standardised Method. The value of this capital requirement is described in the unaudited Pillar 3 Disclosures published separately.

Operational Risk and Operational Resilience

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational Resilience is the ability to continue operating "Important Business Services" in the face of disruption, regardless of source, and to have the ability to prevent, adapt, respond to, recover and learn from operational disruptions. 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, described below). Processes are in place to identify and assess these risks in order to enable effective risk management. The Risk Register and Risk Control Self-Assessment process (RCSA) processes are 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 12, 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.

Based on the guiding principle that management at all levels is responsible for managing operational risk, FCE maintains a strong internal control culture across the organisation. Annual Control Testing, 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'.

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

Market Risk

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

Foreign-exchange risk is the risk arising from fluctuating interest rates. Currency exposures are managed by FCE as an integral part of its overall risk management programme, which recognises the unpredictability of foreign exchange markets and seeks to reduce the potential adverse effects on FCE's results. Further details on FCE's foreign-exchange risk and risk management can be found in Note 32a 'Currency Risk'.

FCE reduces its exposure to foreign-exchange risk through the use of foreign currency exchange derivatives. In addition, FCE holds equity in its overseas branches and subsidiaries in order to hedge its capital ratios against movements in exchange rates.

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 three years, and floating rate wholesale financing loans with an average life of approximately two months.

It is FCE's policy to execute interest rate derivatives to change the interest rate characteristics of its debt to match, within a tolerance range, the interest rate characteristics of its 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 (EVE) and Net Interest Income (NII) models to inform its capital requirement for interest rate risk.

FCE's strategy for the use of derivatives is designed only to mitigate market risk; derivatives are not used for speculative purposes. For further details, refer to Note 31 'Market Risk'.

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, and 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.

FCE's 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 some of 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.

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

Ford, uses 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 to ensure appropriate mix and tenor.

FCE holds liquidity in the form of cash, committed capacity and collateral eligible for central bank liquidity facilities. 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 in the Bank of England Discount 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 LCR part of the PRA Rulebook. FCE also complies with the Net Stable Funding Ratio (NSFR) requirements, which are designed to ensure that banks maintain a stable, long-term funding profile to reduce structural liquidity risk, in accordance with the PRA Rulebook.

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. FCE has measured its risk appetite against each of these:

- Wholesale funding risk
- Funding concentration risk
- Off balance sheet risk

Business Environment

- Cross-currency liquidity risk
- Balance sheet growth
- Franchise-viability risk
- Non-marketable assets risk
- Retail funding
- Intraday liquidity
- Intra-group liquidity

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 with, and services provided by 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 defined by FCE as: "The risk that FCE's culture, strategy, policies or procedures encourage its staff, individually or collectively, to act (or omit to act) in a way that delivers poor customer outcomes for FCE's customers or negatively impacts on the integrity of FCE Bank plc, the financial services market as a whole or competition there-in."

Conduct Risk is wide-ranging and FCE recognises that one of best ways to manage Conduct Risk, as well as instilling values of Treating Customers like Family (TCLF), is through the development and maintenance of a culture to which good conduct and Treating Customers Fairly (TCF) is central. FCE's approach to Conduct Risk is embedded by our culture of excellence and Ford+ behaviours, a global corporate approach intended to strengthen and entrench a culture of customer-centricity, reflecting on customer experience, satisfaction and outcomes.

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.

FCA Consumer Duty

The FCA will be introducing a new consumer principle which will require regulated firms to act to deliver good outcomes for retail customers ("**Consumer Duty**"). These outcomes relate to products and services, price and value, consumer understanding and consumer support. The new Consumer Duty will apply from 31 July 2023 for products and services that remain open to sale or renewal and from 31 July 2024 for closed products or services. It is not yet clear how Consumer Duty will apply to FCE's retail business however, it could adversely affect the amounts received or recoverable in the sale or lease of vehicles to retail customers.

Cyber Risk is the risk of a cyber-attack harming FCE's reputation and/or subjecting FCE to regulatory actions or litigation. Information security risks have increased recently as advances in technology continue which may result in a compromise or breach of existing protection methods.

FCE continually employs capabilities, processes, and other security measures designed to reduce and mitigate the risk of cyber-attacks, although such preventative measures cannot provide absolute security and may not be sufficient in all circumstances or mitigate all potential risks. FCE participates in and benefits from Ford and Ford Credit's global tools and focus on Cyber Security.

Preventive measures in place include the use of Static Security Testing (SAST) tools for the integration of security scans within the software delivery pipeline, and the sharing of best practice and knowledge around remediation of security vulnerabilities; ensuring Ford Credit Application Programming Interfaces (APIs) are secure through tool driven analysis of conformance to design specifications, best practices and security requirements; executing Dynamic Security Testing (DAST) vulnerability scans across FCE's externally facing applications containing sensitive data; improving FCE's cybersecurity posture through training and awareness initiatives such as secure coding and phishing identification skills and monitoring and limiting USB Device Control Exception requests.

Business Environment

Environmental, Social and Governance (ESG) Risk
ESG risk is divided into three elements:

- Environmental risk is the impact FCE has on the environment and the impact the environment has on FCE's operations including its customers.
- Social risk is the impact FCE has on people, including staff and its customers and the community.
- Governance risk is the risk that FCE does not have adequate internal processes and controls in place for the governance of effective decision making and policy making amongst its Board of Directors, shareholders and stakeholders to demonstrate good business culture and ethics.

Climate-related risk is the ESG element most relevant to FCE's business model as a bank wholly owned by its ultimate parent Ford Motor Company. FCE has developed 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. FCE is embedding its approach to the environmental element of ESG by evolving our understanding of climate-related risks and opportunities applicable to our business model and customer base.

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

- Physical risks are the risk which arise from the physical effects of climate change and environmental degradation.
- Transition risks is the risk related to the process of adjustment towards a low-carbon economy.

FCE Climate Strategy Statement

FCE is supporting our customers by providing financing for greener products, and by offering financial services that help Ford create a better world and facilitate freedom of movement for our customers.

FCE is working to understand the challenges that our customers face across the range of ESG issues and are developing strategies to identify and address them.

To protect our planet, both now and for future generations, FCE will need to adapt the way it does business. FCE is working together with Ford to reduce our carbon footprint.

European jurisdictions are focusing on air quality, predominantly in cities as well as climate change in general. Various statements have been issued indicating a desire or even firm rules to restrict access to, or ban, vehicles with Internal Combustion engines ("ICE") from designated cities, or parts thereof as well as ban of new registrations on a national or regional level. There has also been a focus on legal claims against diesel vehicles and assumed illegal defeat devices 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 vehicles, there could be an adverse impact on FCE's business.

Ford has announced it is investing more than $50 billion in electric vehicles globally through 2026. By mid-2026, 100 percent of Ford's passenger vehicle range in Europe will be zero-emissions capable, all-electric or plug-in hybrid; moving to all-electric by 2030. Ford's commercial vehicle range in Europe also will be 100 percent zero-emissions capable, all-electric or plug-in hybrid, by 2024; two-thirds of Ford's commercial vehicle sales are expected to be all-electric or plug-in hybrid by 2030 and all commercial vehicles sales will be 100 percent zero-emission by 2035. FCE will continue to support Ford sales in tandem with this development in its vehicle range.

The effects of increased scrutiny and CO2 regulation for motor vehicles, including access restrictions for ICE vehicles in 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 provides flexibility for it to react relatively quickly to changes, however, also acknowledges that these risks may affect investors' 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.

FCE expect investor interest in ESG-related information and investment products will continue to intensify in the coming years. If interest in investments without ESG-related features declines and FCE are slow to ramp up its "green" portfolio of receivables, FCE could experience a decrease of investor interest in its notes, which could lead to funding constraints or higher interest rates. Further, there is no guarantee that investors will find the information FCE provide about ESG to be sufficient and FCE cannot know for sure how investors will use their ESG questionnaires to make investment decisions. Further, as broader society transitions away from ICE to electrified vehicles, investors may become increasingly concerned about the residual values of either vehicle type, potentially impacting their interest in holding FCE notes.

Further information on environmental and social matters can be found in the Non-Financial Statement on page 22.

Business Environment

FCE's Approach to Regulatory Compliance

FCE proactively monitors and implements relevant regulatory changes and regularly assesses and controls its exposure to regulatory risks through the time bound completion of a compliance monitoring programme. This programme assesses FCE's compliance with all applicable regulatory rules. All material changes to laws and regulations impacting FCE are overseen by Senior Management and where necessary are implemented and recognised within regularly revised policies and procedures.

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 1,300 individuals for its ongoing success and risk management.

People Strategy

FCE's people policies and practices recognise fully the company's status as a dual 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 the skills and capabilities of its workforce, and leverages the Ford Credit brand to bring in the best talent from outside the Company. FCE's people strategy includes the use of Accelerated Development programmes to support the 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. In line with the Company's performance management and development processes, quarterly partnership discussions are held with people leaders in order to align on the employee's goals and results, growth and development, career aspirations and to support employee 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.

During 2022, FCE offered summer placements in the UK to address the under-representation of black talent through the 10,000 Black Interns programme. FCE are also supporting the Change 100 programme, which offers talented university students and recent graduates with any disability or long-term condition summer placements during 2023.

In October 2022, FCE was recognised as a Disability Confident Employer level 2 and are currently seeking level 3 accreditation to become a Disability Confident Leader. The UK government scheme supports and accredits employers who think differently about disability and take action to improve how they recruit, retain, and develop people with disabilities.

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 our 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

Employees are kept informed of its activities on a national, pan-European and global level by means of weekly e-bulletins, internal intranet, email updates and all-employee meetings. All-employee activities are supported by local location and on-site communications including team meetings, cascades and dedicated project websites.

During 2022, employee communication continued to evolve following the global pandemic and increase in hybrid working. In order to help colleagues feel informed, supported, included and build a sense of belonging, specific actions included:

- Timely, digital communications designed to drive awareness and understanding of Ford and Ford Credit's strategic direction, accelerate momentum on FCE's culture journey and prepare the Ford Credit workforce for workplace changes such as hybrid working.
- Regular virtual employee meetings between Directors, management and the entire workforce with open, honest and transparent two-way discussion including questions and answers. These have been welcomed by employees, with attendance remaining high.
- Ongoing LearnX webinar series providing a variety of support tools and training to help employees explore, experience and experiment with their personal and professional development, as well as the challenges of working remotely.
- Frequent communication to raise awareness on mental health and wellbeing issues with support available to employees through 'FCE's Mental Health First Aiders', 'Occupational Health Service','24-hr Employee Assistance helpline' and online resources.
- Regular staff 'PULSE' surveys used to monitor employee satisfaction and culture.

Non-Financial Statement

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 operations.

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 Ford's corporate policies and comply with national laws and regulations related to human rights. FCE personnel should also work to reduce the risk of any potential human rights violations by identifying risks, monitoring those risks and remediating any non-compliance.

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

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.

In early 2023, FCE launched an internal Health and Safety site, hosting various internal and external resources related to Health, Safety and Wellbeing. The aim of the site is to continue cultivating FCE's Health and Safety culture and increase employee engagement.

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.

Work Hours

FCE complies with applicable laws regulating hours of work.

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 Agreement.

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

Climate related financial disclosures roadmap (TCFD recommended framework)

FCE recognises the growing demand of investors, lenders and other stakeholders for decision-useful, climate-related financial information. Although the new regulation on climate related financial disclosures will be applicable to FCE in its 2023 Annual Report, there is an ongoing impact assessment. The table below illustrates FCE's progress against the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). These are not intended to be the fully compliant disclosures.

TCFD Recommendation	Achievements to Date	Future developments and Focus
Governance:		
• The Board's oversight of climate related risks and opportunities • Management's role in assessing and managing climate related risks and opportunities	• The Board appointed the Chief Risk Officer under the senior Managers regime as the responsible person for climate related issues in 2019 • ESG training has been delivered to Board in September 2021 • The Executive Committee and Board Risk Committee has oversight on climate related financial risk and receives regular updates at committee meetings • An ESG team has been established to lead FCE's development of climate-related risk management. The team work with colleagues across the business to establish and embed awareness of ESG risks, opportunities and requirements. • Progress towards FCE's ESG objectives is recognised in FCE's Three Lines of Defence model, with independent assurance provided to the Board by GAO in July 2022	• Ongoing enhancement to the existing governance structures to embed oversight and management of climate related financial risks
Strategy:		
• The climate related risks and opportunities the organisation has identified over the short, medium and long term • The impact of climate related risks and opportunities on the organisation business strategy and financial planning • Resilience of the organisation's strategy taking into consideration different climate related scenarios including a 2 degree or lower scenario	• The Executive Team have developed an initial ESG Risk Strategy, which recognises FCE's vision to be the reason why customers choose and stay with Ford and aligns with Ford's Global Sustainability strategy	• FCE's climate strategy will continue to develop in line with its parent • FCE will continue to support customers by providing financing for greener products and by offering financial services that help Ford create a better world and facilitate freedom of movement for our customers • FCE is working together with Ford to reduce its carbon footprint and is committed to help Ford achieve its net zero carbon economy objectives

Non-Financial Statement

TCFD Recommendation	Achievements to Date	Future developments and Focus
Risk Management:		
• Processes for identifying and assessing climate related risks. • Process for managing climate related risks • Integration of processes for identifying, assessing, and managing climate-related risks into the overall risk management	• An initial view of climate related risk drivers has been developed and assessed against risk categories across the business • Climate related events are monitored as part of FCE's operational risk and operational resilience framework • FCE continues to develop its portfolio management information with a focus on data relevant to the monitoring of climate related risks	• Ongoing work to establish and enhance a framework for identifying, assessing, monitoring, and managing climate related financial risk • To continue the identification and development of climate related key risk drivers to help inform key risk appetite metrics
Metrics and Targets:		
• Metrics used by the organisation to assess climate related risk and opportunities • Scope 1, Scope 2 and if applicable scope 3 greenhouse gas emissions and the related risks • Targets used by the organisation to manage climate related risks and opportunities and performance against targets	• FCE reports scope 1, 2 and 3 emissions for operations in the UK • FCE has established initial risk appetite metrics to monitor progress against climate related objectives and key strategic initiatives that support Ford's sustainability strategy	• FCE will develop further risk appetite metrics from key risk driver analysis • FCE will follow the strategic direction of Ford and its commitment towards Net Zero. At this time, FCE does not plan to set a stand-alone Net Zero target

Streamlined Energy and Carbon Reporting

	Energy Consumption kWh		CO2 Emissions Location Based tCO2		CO2 Emissions Market Based tCO2	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
Scope 1 Energy/ Emissions						
Natural Gas	613,970	907,871	112	167	112	167
Business Owned Transport	139,408	127,536	35	31	35	31
Total Scope 1 Energy/ Emissions	**753,378**	**1,035,407**	**147**	**198**	**147**	**198**
Scope 2 Energy/ Emissions						
Electricity	941,476	1,307,964	182	278	46	52
Total Scope 2 Energy/ Emissions	**941,476**	**1,307,964**	**182**	**278**	**46**	**52**
Scope 3 Energy/ Emissions						
Employee owned and leased vehicles	107,925	19,008	27	5	27	5
Total Scope 3 Energy/ Emissions	**107,925**	**19,008**	**27**	**5**	**27**	**5**
Total Scope 1, 2 & 3	**1,802,779**	**2,362,379**	**356**	**480**	**220**	**255**

Non-Financial Statement

Intensity Metric	2022	2021
Revenue in mil £	516	599
tCO2 per mil £ revenue	0.69	0.80

Scope and Methodology

FCE reports greenhouse gas (GHG) emissions in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.FCE follows the HM Government Environmental Reporting Guidelines (March 2019) and has 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.

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 2022. Conversion factors were taken from the 2022 UK Government's Conversion Factors for Company Reporting document. Both location 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 include business travel in company owned or leased vehicles as well as employee vehicles on company business.

Energy Efficiency Actions Taken

At FCE's European headquarters electricity comes from renewable sources and the offices have been fitted with LED energy efficient lighting with automatic switch off during evenings where the premises is less used . To support the transition to low carbon transportation, electric vehicle charging points have been installed, which employees can use to charge their electric cars while at work.

In 2022 FCE continued the hot desk office and remote working arrangements and mid-year consolidated its head office operation into a smaller footprint, resulting in a significant energy saving for FCE. Measures to increase air transfer and eliminate air circulation in buildings implemented as a COVID-19 prevention action, have now ceased. Heating and ventilation recirculation controls have now been reinstated resulting in a reduction in the amount of gas used for heating. In the head office, new energy efficient heating boilers have now been installed and are operational, yielding a reduction in the amount of energy used to heat the main office building.

Virtual meetings have been expanded, which greatly reduced business travel during 2022.

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, which is required under section 414A of the Companies Act 2006, describes how the Board of Directors (hereafter referred to as the Board) have had regard to the matters set out in section 172(1)(a) to (f). Furthermore, 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 stakeholders as a whole. This means that as well as promoting the success of the Company for the benefit of its members, the Directors must have regard, amongst other matters, to the likely consequences of any decisions in the long-term on 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 Board is committed to maintaining high standards of corporate governance to support the delivery of the business strategy, to maintain positive relations with all the Company's 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 2022, the Board held seven scheduled Board meetings and a two-day Strategic session. The statement on corporate governance arrangements on page 29 provides details on how the Board 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

During 2022, FCE's Board comprised of three Executive Directors and six Non-Executive Directors of which four are considered independent and are able to provide independent oversight and constructive challenge to the Executive Directors. Each Director has been selected and appointed based on their breadth of experience and collectively the Board 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 the three 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.

Corporate Strategy and Purpose

Section 172 duties are at the fore when 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 meeting held during the first quarter of the reporting year. The process considers the many aspects of FCE's business including the business model 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, the Board considered how FCE needs to adapt to realise cost efficiencies with an innovative workforce to support Ford's electric vehicle strategy and in so doing remaining competitive in comparison to its peers and other market disrupters; Ford's strategy for shifting to an agency model for vehicle distribution the continuing focus on the impact of climate change on the Company's activities; the need to deliver a best-in-class experience for its existing and new commercial and retail customers; to deliver a best in class vision for its retail depositors; as well as reviewing horizon risks including but not limited to ongoing impact of the Russian invasion of Ukraine, increase in global commodity prices, the economic factors that are likely to negatively impact the business performance, the competitive and disruptive market landscape, ongoing global inventory shortages; and conduct risks with particular regard to the interests of its retail and wholesale borrowers, its retail deposit investors, its employees, its suppliers and the discharge of the company's regulatory expectations.

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Stakeholder Engagement

FCE recognises the need to engage with key stakeholders to help inform the Board's strategy and decision-making. The following have been identified as FCE's key stakeholders by the Board in the context of discharging their section 172 duties, namely, retail customers, commercial customers, retail deposit holders and other investors, Ford dealership network, employees, suppliers, regulators, Ford, 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 for the implementation of key strategic decisions including those made in the previous year. Examples include the deployment of the platform through which the Company engages with consumers directly as part of renewals management, the modernisation of the business' core platform, the review of Ford's implementation plan of a new distribution model with a view to reducing distribution costs, monitoring the ongoing performances of recently installed Company platforms such as Medallia - the software platform which provides customer feedback in real time, the e-commerce platform including e-contracting. The Board also maintained oversight of employee wellbeing as Company employees and workers returned to working in the office via a hybrid model as well as kept abreast of all key developments in the employee space; maintained oversight of the continued development of the Company's culture framework to align the Company culture with the business strategy and its values to ensure that FCE is best placed to manage future opportunities and risks as well as unlock more value for customers and other stakeholders. Examples of how stakeholders' interests have influenced decision-making are included below.

Customers and Suppliers

FCE's offers branded financial products and services to support the distribution and sale of Ford passenger and commercial vehicles and vehicle accessories including equipment underpinning Ford's electric vehicle strategy. Consistent with its ultimate parent Ford, FCE's goal is that every customer is treated like family through the development of and offer customer-focused products and services that meet or exceed their expectations so creating loyalty and trust. In this vein, Ford has established a dedicated division to focus on commercial customers with the aim to make commercial customers' businesses thrive by accelerating productivity. To support these customers, FCE has established Ford Pro FinSimple which aims to provide commercial customers with simplified and easy financing, together with the ability to bundle with other Ford Pro products and services. FCE is also continuing to enhance and simplify the customer engagement experience using technology and innovation. Furthermore, the FCE Board continues to consider FCE's business model to ensure it is in alignment with Ford's medium to long term European plans. The Board has also continued to focus on the needs and expectations of retail deposit customers and the Ford dealership network particularly in the area of operational resilience.

In response to the continuing global shortage of semi-conductor microchips, FCE deployed 0% APR re-financing during 2022 as a bridging tool for those customers who are experiencing longer than normal delivery times for their new vehicles.

In response to the cost-of-living crisis, the macroeconomic climate across Europe and the resulting adverse impact on businesses and individuals, the Board is focussed on identifying and addressing the risks and requirements of the retail customers, commercial customers and dealer network ensuring that customers are supported, risks managed and high standards of business conduct are maintained. The Board also periodically reviews the areas of the business that have oversight for fostering relationships with retail and wholesale customers, dealers, retail depositors and suppliers. Furthermore, Management are continuing to periodically listen in on customer calls to the Company's contact centre to ensure that the values delivered to the customers are satisfactory and in doing so enhance the customer experience and retention. The Board also reviewed the Ford Money vision for retail depositors.

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 continuing commitment to maintaining a psychologically safe workplace has driven communication and engagement with staff throughout the year including discussion forums to understand employees' views and concerns around a number of topics such as culture, diversity and inclusion, bureaucracy, innovation and wellbeing. Following the return-to-office in Spring 2022, FCE has continued to encourage employees to adapt a healthy balance of hybrid working which fosters team collaboration and efficiency. The Company continues to offer its employees a range of flexible working options. FCE has also launched JobShare Connect to encourage and support part-time working. Furthermore, FCE has put in place workplace health and safety protocols which go beyond the government guidelines, to ensure employees are able to work in the office as safely as practically possible. Further details on the engagement and communication with employees during the year can be found on page 21 as part of the Non-Financial Statement narrative. Encouraging employees to 'Care for Each Other' is a key part of FCE's plan. Designed to help create a culture of inclusion and belonging, this goal is supported by a range of wellbeing initiatives.

FCE values the diversity of its employees and encourages an inclusive culture so that everyone is free to contribute and develop in a psychologically safe working environment that is free from harassment or bullying. FCE is continuing to take specific actions

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to improve gender and ethnicity representation including initiating a new advocacy and mentoring scheme to increase and maintain female representation at senior levels. In addition, FCE established a Diversity, Equity and Inclusion (DEI) Advisory Board with a view to transforming into a more mature organisation in the context of DEI. FCE ensures that its employees, particularly its senior leaders, model diversity and inclusion and recognise the connection between diversity and inclusion and better decision-making, innovation, and employee engagement. FCE has also put in place frameworks and policies that are accessible to all employees and workers covering anti-bribery, Corruption and Whistleblowing. Furthermore, during the year, FCE gained accreditation as a Disability Confident Employer.

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 or professional development which may be required. During the year, FCE sponsored several employees who are pursuing a postgraduate degree course in Business Administration. Employees also have 24/7 access to an online learning platform where they can access 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.

In response to the cost-of-living crisis, FCE awarded two discretionary lump sum payments of £500 (pro-rated where applicable) to the lower earning employees at it Manchester Business Centre with the aim of the award being to reduce the financial stress that these employees may be experiencing in a targeted and timely manner, as part of the Company's mission to Care for Each Other.

Regulators

The Board recognises the importance of open and transparent dialogue with FCE's regulators. The Directors periodically meet with the PRA to ensure that they satisfy their obligations under the SM & CR.

Environmental Considerations and Community

In response to the regulatory expectations and planned legislation in relation to disclosures on climate change risks, the Board has kept under review the development of FCE's approach to addressing climate-related financial risks and opportunities.

FCE continues to encourage engagement with local community initiatives, through employee participation in charitable 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. The section 172 statement 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 including but not limited to the following: the Rulebook of the Prudential Regulation Authority ("PRA"), the Handbook of the Financial Conduct Authority ("FCA"), the Wates Corporate Governance Principles for Large Private Companies dated December 2018 (the "Wates Principles") and other industry guidelines covering Internal Governance, Sound Remuneration Policies, Risk Management, Internal Control and Related Financial and Business Reporting, Audit Committees, Board Effectiveness and Board responsibilities in the context of corporate governance. FCE publishes relevant corporate governance related disclosures on its website www.fcebank.com.

The Directors consider that effective corporate governance is a key factor underlying FCE's strategies and operations. As FCE has a debt securities listing only, it has fewer reporting obligations than a company with listed equity with no public disclosure requirements. Nonetheless, FCE has continued to provide periodic financial updates to its stakeholders through the publication of quarterly management statements. FCE will replace the publication of its quarterly management statements with the publication of a bi-annual unaudited management statement in addition to the publication of a separate Pillar 3 disclosure in 2023.

The Company has applied the Wates Corporate Governance principles during the financial year, as detailed on the table below. In practice these principles are embedded within, and supplemented by, FCE's existing governance practices as required by the PRA and the FCA (the Regulators). Furthermore, compliance with these matters is assured through the Company's Three Lines of Defence model as details on page 12 of the Strategic Report and by ongoing supervision by the Regulators.

Wates Principles	
Purpose An effective board promotes the purpose of a company and ensures that its values, strategy and culture align with that purpose.	FCE's corporate values are aligned with those of Ford. 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. Furthermore, The FCE's Business Model and Strategy to deliver the Company's purpose are set out on page 4.
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.	The Board composition for 2022 is detailed on page below. The size and composition of the Board reflects the requirements of the PRA's Rulebook with each Director satisfying the fit and proper tests and regulatory requirements. The Board is satisfied that its composition includes individuals with a mix of skills and experience is necessary to make informed decisions and provide effective oversight of the risks. The Board and its committees regularly receive briefings on pertinent thematic issues.
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 periodically reviews its Board Charter relating to the internal corporate governance of the Company and its group. This Charter satisfies industry 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 32.

Governance

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.	During the reporting year, the Board supported the on-going review of FCE's business model designed to ensure FCE is well positioned to support Ford's electrification strategy and its increasing focus on Commercial Vehicle customers. The Company has appointed a Chief Risk Officer in accordance with PRA requirements and the Board has established a risk committee with its terms of reference published on its website. The Company has put in place a robust risk appetite framework against which business performance is monitored. FCE also has in place a risk horizon scanning framework in place which is reviewed by the Board on a quarterly basis.
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 FCE's remuneration polices are outlined in its remuneration disclosures published annually on FCE"s website www.fcebank.com.
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.	Further details on the Company's stakeholder engagement can be in the section 172 statement on page 27.

The Board is satisfied that it meets the desired outcomes from a regulatory perspective. Furthermore, it meets its regulatory obligations, is open and transparent with the regulators and has set a culture that supports prudent management.

As part of its continuing authorisation, FCE is periodically 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.

The Board

The FCE Board has approved a written charter to establish systems of effective 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 chairs of the Audit, Risk and Remuneration Committees, who are Independent Non-Executive Directors, 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 comprised nine members for most part of the reporting year, namely three 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 business function.

The Directors and Company Secretaries, 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 on page 31.

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 re-election at each Annual General Meeting (AGM).

Directors' Interests

Directors disclose relevant external interests which might conflict with their role including the directorships that they hold. The Directors formally reconfirm their external interest biannually and are expected to obtain the agreement of the Board Chair before accepting additional commitments that might impact time commitment and have an ongoing obligation to inform the Company as soon as they become aware of any potential or actual conflicts of interest. Furthermore, at each Board meeting, the Directors are required to disclose any conflict or potential conflict in relations to the matters being considered at the meeting.

Biographical Details of Directors

Marlene Martel Non-Executive Director and Board Chair. Her other key positions include General Counsel Ford Motor Credit Company LLC. She is also a Director of Alternatives for Girls Detroit, Michigan. Marlene was appointed to the Board on 16 September 2021.

Narpal Ahulwalia, Narpal retired from the Board on 2nd December 2022 and retired from Ford effective 1st January 2023.

Natalie Ceeney, Independent Non-Executive Director and Chair of FCE's Remuneration Committee. Natalie is also currently Chair of Cash Access UK LTD. She is also a Non-Executive Director of Anglian Water Services Limited, Liverpool Victoria and Openreach Limited. 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.

Talita Ferreira, Independent Non-Executive Director and Chair of FCE's Audit Committee. Talita is also currently a Non-Executive Director at Tandem Bank Limited. She is also the CEO and Founder of Authentic Change Solutions Limited - a thought leadership firm which helps individuals and organisations transform culturally. Talita 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.

Paul Kiernan, Executive Director, Finance, a Chartered Accountant since 1992 and a member of the ICAEW. His other key role is Chair and 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 and Chair of FCE's Board Risk Committee since January 2023. 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, Senior Independent Non-Executive Director and Chair of FCE's Board Risk Committee until January 2023, is an Associate of Chartered Institute of Bankers (ACIB). John is also currently the Chairman of EFG Private Bank, Director of Silverback (UK) Limited and Chairman of StreamBank plc. Previously, he has served on the boards of Actvtrades, Hambros Bank, which later became a subsidiary of Sociétè 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), Innovation Finance Limited 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 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, Chief Executive Officer. His other key roles are Supervisory Board Member, Ford Bank GmbH and Director, Ford Fleet Management B.V. Prior to taking up his present appointment as CEO, Carlos was FCE Executive Director, Sales and Marketing and prior to joining the FCE Board he was the 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.

Director Independence and Board Challenge

The appointment of an Independent Non-Executive Director 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, subject to determining that the Non-Executive Directors independence is still valid.

The Board considers four of the six current Non-Executive Directors to be independent because they have no material business relationship with FCE, (either directly other than their existing role 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, its parent companies 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.

Governance

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 is the SID.

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

Selection of Directors and Executive Management

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.

Specialist executive recruitment agencies may be employed to find suitable Directors. 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.

Matters Reserved and considered by the Board during the reporting period

During 2022, the Board held a total of seven regular board meetings and a strategic off-site meeting 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 stakeholder value.

During the reporting period, the following matters were considered by the Board and demonstrate how the directors have complied with their statutory duties and in particular s.172 CA 2006 duty to promote the success of the Company:

- The Board refreshed the corporate strategy at a two-day Strategic Off-Site meeting. As part of this process, the Board considered how FCE needs to adapt to realise cost efficiencies with an innovative workforce to support Ford's electric vehicle strategy and in so doing remaining competitive in comparison to its peers and other market disrupters; Ford's strategy for shifting to an agency model for vehicle distribution; the continuing focus on the impact of climate change on the Company's activities; the need to deliver a best-in-class experience for its existing and new commercial and retail customers; to deliver a best in class vision for its retail depositors; as well as reviewing horizon risks including but not limited to ongoing impact of the Russian invasion of Ukraine, increase in global commodity prices, the economic factors that are likely to negatively impact the business performance, the competitive and disruptive market landscape, ongoing global inventory shortages; and conduct risks with particular regard to the interests of its retail and wholesale borrowers, its retail deposit investors, its employees, its suppliers, and the discharge of the company's regulatory expectations
- The Board considers the progress against the corporate strategic objectives and plans by reviewing metrics and actions via the CEO's report and other relevant updates at each board meeting.
- The Board is continuing to monitor the long-term capital and liquidity adequacy considering the impact of global geopolitical issues, UK macroeconomic issues, the impact of the semi-conductor microchip shortage and the recent pandemic. As part of this process, scenario planning tools have been developed to assess the impact of these issues on the balance sheet.
- The Board continues to review the business leadership team with a view to identifying the business skills and tools that need to be enhanced to support the cost-effective delivery of Ford's electrification strategy. As part of this process and the Business Model review, the Board has also reviewed the succession plans for the Material Risk Takers and other key employees as well as monitored the delivery of the modernisation of key business platforms.
- The Board deliberated how to ensure that the refreshed business is innovative, diverse and inclusive. It continues to monitor the implementation of a Diversity, Equity and Inclusion (DEI) focused action plan.
- The Board continued to review the activities carried out at the Manchester Business Centre with a focus on delivering the group's goal of treating customers like family to enhance customer loyalty and optimising the centre's efficiency.
- The Board continues to monitor the implementation of the changes in respect of the Dealer contracting model.
- The Board reviewed the Company's outsourcing framework to ensure it was in line with the regulatory requirements.
- The Board continued to focus on further developing the Ford Credit Culture to be a product driven and customer focused organisation. As part of this, the Board is working with executive management to identify key metrics within a

conduct and culture dashboard with a view to identifying early warning indicators which could jeopardise customer loyalty or potentially cause customer harm.

- The Board continued to ensure that the Company complies with its duties to treat customers fairly and receives a report at each meeting focusing on the topic with metrics and monitors Financial Ombudsman Service (FOS) adjudications to identify trends and lessons learnt to improve decision making.
- *The Board continued to monitor the progress of the delivery of the Company's regulatory reporting enhancement* project as well as process to improve the data quality and governance with a view to delivering an enhanced and automated regulatory reporting platform.
- The Board continued to review the support being provided to retail and wholesale customers who were impacted by the global pandemic, those impacted by the invasion of Ukraine and those currently being impacted by the cost-of-living crisis.
- The Board continued to monitor the performance of the Company's German subsidiary including the expansion of the retail deposits business in Germany.
- The Board continued to ensure that the Company has a robust and resilient Cybersecurity Incident Plan and Playbook.
- The Board continued to monitor the roll out of the customer experience (CX) platform.
- Following on from the implementation of the Brexit Strategy, the Board continues to assess whether FCE's European structure is streamlined and fit for purpose.
- The Board continued to support the timely publication of the Company's payment practices report and support practices to ensure payments are made within contractual timescales.
- The Board reviewed the Company's Modern Slavery Statement and supports practices as part of the Ford group which prevent modern slavery practices and supported the timely publication of the statement in line with legal requirements.
- The Board fulfilled their obligations in respect of their transparent interactions with the regulators as well as the preparation of key regulatory reports and documents covering the following topics namely capital adequacy, liquidity, operational resilience, recovery & resolution planning.
- The Board continued to monitor the development of the framework to underpin its key business services as part of the Operational Resilience Programme including the tolerance levels.
- The Board continued to monitor the development of a robust ESG risk strategy and plan in line with the regulatory requirements including ensuring that there is a robust disclosure assurance framework underpinning the ESG risk strategy.
- The Board continued to monitor the development of the revised Culture and Conduct Risk framework particularly in the context of the new Consumer Duty Regulations.
- The Board reviewed and approved the implementation plan in relation to the new Consumer Duty Regulations.
- The Board received periodic Compliance Controls reports (in relation to staff training, compliance metrics and AML) and periodic internal & external audit reports.
- The Board received the periodic Health and Safety Report including the policy strategy and dashboard.
- The Board reviewed and supported the timely publication of the Gender Pay Report covering gender pay and bonus gaps and the work that is being done to support women's advancement and development.
- The Board continued to receive a status update on staff matters covering morale, mental well-being initiatives as well as the approach to implementing the hybrid work model.
- The Board received subject matter expert briefings to enhance their knowledge on key thematic issues to ensure that they can collectively make sound decisions in respect of matters considered. The briefings covered topics such as Money Laundering and Financial Crime; Diversity, Equity, and Inclusion; Environmental, Social, Governance (ESG) Disclosure Reporting Assurance; the new Consumer Duty and the global economic outlook in the context of FCE's business activities.
- The Board continued to receive periodic updates on significant legal matters and ensured that adequate provisions are made, where necessary.
- The Board reviewed and approved the climate-related risk strategy.
- The Board received periodic briefings on the status of FCE's business operational activities covering the UK and the 4 key European markets.
- The Board received status updates on relevant strategic projects including the ongoing review of FCE's business model.
- The Board reviewed the performance of executive management and other senior managers to ensure that their delegated responsibilities were being performed. Furthermore, they have ensured that adequate succession plans are in place for key roles. The Board also reviewed the enhanced Company Performance Management Framework.
- The Board acknowledged the improved quality of Management Information received and said that they would like to see a continued effort to reduce volume of materials received within the pack.
- The Board has continued to proactively monitor the horizon risks that could impact the Company's operations.
- The Board carried out the periodic reviews of its governance framework by way of the Board Charter and Board Committee Terms of References to ensure that they are fit for purpose.
- The Board continued to support the growth of Ford Credit in Europe via the joint venture with ALD in relation to integrated commercial vehicle fleet management and financing.
- The Board reviewed and satisfied itself that the payment of an interim dividend to its parent was appropriate and in line with the agreed Dividend Policy.
- The Board reviewed and approved the Business Plan and Funding Strategy.

Governance

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.

The Terms of Reference for the Audit, Risk and Remuneration Committees can be found on FCE's website https://www.fcebank.com/investor-center.html.

The report of the work of the Board Audit Committee can be found on pages 38 and 39.

Details of on the risk functions and work of the Board Risk Committee can be found on page 12 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. During the reporting period the RemCo also reviewed succession plans for FCE's Material Risk Takers, deliberated FCE's diversity strategy and received DEI initiative updates, reviewed and approved FCE's unaudited 'Pillar 3 Disclosures' regarding remuneration, which are published on its website, reviewed remuneration related policies, reviewed the gender pay report, reviewed the culture framework, reviewed and approved the revised FCE performance management framework, deliberated strategic risks in the context of HR and future skills requirements, reviewed FCE's Health & Safety policy framework, reviewed and deliberated the outcome of the annual employee survey, reviewed the Manchester Business Centre pay structure and received updates on employee wellbeing.

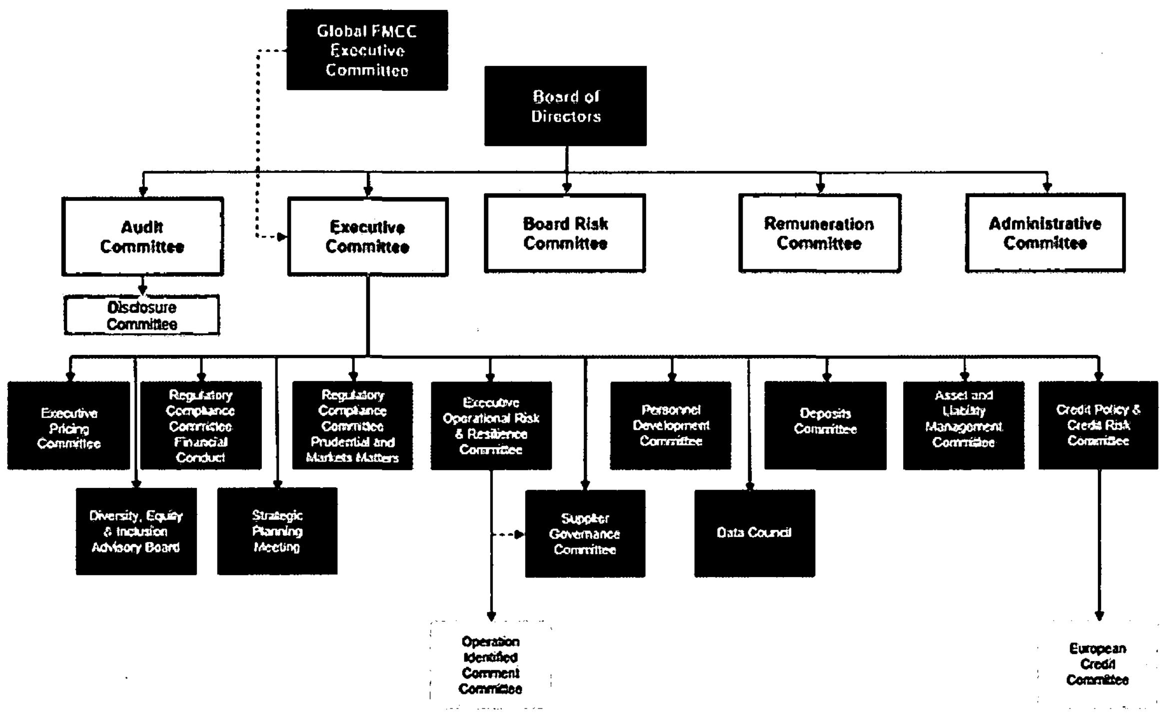
The Executive Committee (EC), chaired by FCE's CEO, provides direction, monitors performance and ensures FCE has the capabilities, resources and effective controls to deliver its Business Plan. The EC has fifteen members, three of whom are Executive Directors. The EC includes individuals responsible for Deposits, Sales and Marketing, Information Technology, Legal, Risk Management and Compliance, Strategy, Finance, Operations, Human Resources, Products, Markets and Communications. The EC held 12 meetings during 2022.

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.

Governance

The full sub-committee structure is set out below.

FCE Governance Structure



Governance

2022 Membership and Attendance

	Board	Board Audit Committee	Remuneration Committee	Board Risk Committee	Number of Directorships
Meetings held	**7**	**4**	**6**	**4**	
Attendance					
N K Ahluwalia	7/7			2/4	6
N A Ceeney	7/7	4/4	6/6	4/4	10
T Ferreira	7/7	4/4	6/6	4/4	4
P R Kiernan	7/7				2
M M Martel	7/7				2
B O'Connor	6/7	4/4	5/6	4/4	2
J Reed	7/7	4/4	5/6	4/4	4
K Robinson	7/7				2
C D Treadway	7/7				4

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 12 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 the UK adopted international accounting standards.

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.

External Audit

BDO LLP (BDO) conducts audits of FCE's Group and Company financial statements which are prepared in accordance with UK adopted international accounting standards. The consolidated financial statements, in addition to complying with UK adopted international accounting standards, have also been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB).

The Audit Committee reviews BDO'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 BDO's audit plan, its scope and cost effectiveness and the audit fee. BDO's audit fees for 2022 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 BDO is approved upfront to ensure only permissible non-audit services are performed.
- All non-audit work by BDO is pre-approved by the Audit Committee unless the amount involved is minimal.
- The remuneration for the non-audit work performed by BDO does not exceed the 70% threshold of the audit fees for 2022.

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, BDO 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 38 and 39.

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 Reed, Natalie Ceeney, and Brendan O'Connor. All members of the Committee are independent Non-Executive Directors.

The qualifications and experience of the members of the Committee are set out on page 31. The Company is satisfied that the Committee members have recent and relevant experience in the sector that the Company operates. The Company is satisfied that Ms Ferreira has the necessary competence in accounting and auditing.

The Board Chair, Chief Executive Officer, Chief Finance Officer, Chief Risk Officer, Company Secretary, Legal Affairs Director, Head of Internal Control and Head of Internal Audit are invited to 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 four times during the year and the member attendance list can be found on page 36.

Terms of Reference

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

The responsibilities of the Committee include:

- Monitoring the financial reporting process and submitting recommendations or proposals to ensure its integrity;
- Monitoring the effectiveness of the Company's internal quality control, risk management systems and processes, 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 Board Audit Committee's Work

In fulfilling its role and responsibilities, the Committee has carried out the following activities during the year:

- 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. The annual work plan focused on key risks and key internal controls. The Committee also reviewed internal audit resources allocation required to meet the annual audit plan as well as undertake advisory audits including the outsourcing of a portion of the internal audit work to a third party, where necessary;
- Reviewed the content of the Annual Report and Financial Statements including the effectiveness of governance and quality assurance, management representations, and going concern statements in the context of the impact of the cost-of-living crises, the uncertain economic outlook;
- Reviewed the end of year reporting arrangements in relation to the unaudited Pillar 3 Disclosures
- 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 position and 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 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 established that the non-audit work performed by the statutory auditor was not above the required threshold of 70% of the average audit fees for the previous three years and considered the relevant safeguards the auditors had put in place to address any potential threat to independence;

Audit Committee Report

The Board Audit Committee's Work continued

- Received status updates 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;
- Scrutinised how the Company is responding to and is complying with significant accounting, regulatory and legal developments affecting it including those relating to climate-related risks and considered how these matters have been reflected in the Annual Report, including both the accounting adopted and the disclosures made;
- Received a status update on the development of the disclosure assurance framework underpinning the climate-related risk strategy reporting;
- Reviewed the Company's tax strategy and relevant policy statements;
- Continued to review its effectiveness against predetermined objectives defined by the committee and wider stakeholders 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 the Recovery Plan; Reviewed the Modern Slavery and Human Trafficking Statement and the framework underpinning the Statement; Reviewed and discussed internal audit reports, including but not limited to those in relation to: Global Aurora, IT Data Analytics, Global Enterprise Resource Planning Programme (I-ERP), IT Application Programming Interface, Accounting, Financial Crime EWRA and Onboarding, Culture, IT selected Critical Applications, New Product Process and Change Management, End Users Services, IT Server Management, Cloud Platform, IT Account Manager, Securitisation and Trade Controls, Risk Management Risk Inventory, Climate Change Related Financial Risks, Operational Resilience, Internal Capital Adequacy Assessment Process, IT – Retail Originations, Models, Retail Deposits, Outsourcing Management, IT Emerging Tech Machine Learning Artificial Intelligence, IT Second Line of Defence, Corrective Actions Sustainability Review, Global Operational Controls Self-Assessment Process, IT Security Assessment – Software Development Tools, and Information Risk and Security Management;
- Continued to review the impact of the global pandemic on FCE's culture and control environment;
- Monitored the evolution of credit loss reserves and evaluation of management judgement overlays in relation to modelled losses as well as the cost-of-living crises;
- Reviewed and discussed the Audit Regulator's Audit Quality Review (AQR) report on BDO;
- Received briefings on key thematic issues, namely, money laundering & financial crime, ESG reporting assurance, the global economic outlook in the context of the Company's activities and the changes in relation to Consumer Duty requirements;
- Reviewed the outcome of the Quality Assessment review of the Internal Audit function.

ON BEHALF OF THE AUDIT COMMITTEE

Talita Ferreira
15 March 2023

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 2022.

The Business Review and future developments are set out in the Strategic Report on pages 3 to 37.

The Group's risk management disclosures are set out in the Strategic Report on pages 11 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 39 '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 3 and 31. 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 9. Information concerning corporate governance arrangements is disclosed on pages 29 to 37.

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 the impact of the recent global pandemic and global inventory shortages, projections for the Group's capital and funding position and the general economic outlook including the cost of living crisis and possible recession. 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 strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations. The Annual Report is published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the group and company financial statements in accordance with UK adopted international accounting standards and applicable law. 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 for that period.

Directors' Report

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK adopted international accounting standards, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with the above requirements in preparing the financial statements for the year ended 31 December 2022.

Approved by the Board of Directors on 15 March 2023.

Carlos Treadway

ON BEHALF OF THE BOARD
Carlos Treadway - Chief Executive Officer
15 March 2023

Independent Auditor's Report to the Members of FCE Bank plc

Opinion on the financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- The Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of FCE Bank Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2022 which comprise the Consolidated Statement of Profit and Loss and Other Comprehensive Income, the Group and Company Statements of Financial Position, the Group and Company Statements of Cash Flows, the Group and Company Statements of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the Group financial statements, the Group in addition to complying with UK adopted international accounting standards, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's 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. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 8 April 2021 to audit the financial statements for the year ended 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2021 to 31 December 2022. We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

Conclusions relating to going concern

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

- Evaluating forecasts, considering the ongoing and expected impact of inflationary and interest rate pressures, challenging the assumptions and predicted outcomes within the forecasts, including assessing their reasonableness against historic performance and our understanding of the business. We also considered the Directors' ability to forecast accurately, comparing historic forecasts to actual results.
- An evaluation of the availability of the different funding sources of the Group.
- Review of the latest Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) prepared by the entity.
- An assessment the ability of Ford Motor Credit Company, FCE Bank Plc's intermediate parent company, to provide funding to the Group to meet the terms of the agreement described in Note 25.

Independent Auditor's Report to the Members of FCE Bank plc

- A review of the Bank's regulatory correspondence, and discussion with the Prudential Regulation Authority (PRA), the Group's lead regulator, to understand their views of the Group and ascertain whether there were any other matters that may impact the Group's ability to continue as a going concern.
- A review of the adequacy of the disclosures within the financial statements in relation to going concern.

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 and the Parent 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.

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

Overview

Coverage	*90% (2021: 93%) of Group profit before tax* *98% (2021: 94%) of Group revenue* *99% (2021: 87%) of Group total assets*		
Key audit matters		2022	2021
	Revenue recognition	✔	✔
	Loan Loss provisioning	✔	✔
Materiality	*Group financial statements as a whole* *£13.98m (2021: £11.93m) based on 5% of the three year average Profit before tax, for the years ended 31 December 2020 to 31 December 2022 (2021: 5% of Profit before tax for the year ended 31 December 2021).*		

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The Group is made up of the parent and its wholly owned subsidiaries, and operates in multiple European countries through its subsidiary and branch network. The Group's most financially significant markets are the UK and Germany, and the Parent Company and Ford Bank GmbH were identified as significant components for the audit. The Parent Company was subject to a full scope audit performed by the Group engagement team whilst the audit of Ford Bank GmbH was performed by a non-BDO member firm in Germany.

Other larger markets in which the Group operates are Italy, France and Spain, and whilst not individually significant components, specified audit procedures were performed by the Group audit team or BDO member firms on certain balances from the components in these markets to the extent necessary to obtain sufficient and appropriate audit evidence over relevant financial statement line items. In determining the work to be performed we considered the quantitative significance of balances, as well as any significant audit risks and any other qualitative factors that were relevant. The risk of material misstatement in the remaining balances and components not in scope was mitigated through audit procedures including testing of controls, including information technology general controls and analytical review procedures performed by the Group engagement team.

The Group also obtains operational and infrastructure support from related parties within the wider Ford Group, mainly in the US, Germany and India. Within our scoping process we identified audit work to be performed over selected business processes performed by the Ford Group on behalf of the Group and Parent Company. We determined that for these business processes audit procedures would be performed by the Group audit team, or by Ford Group non-BDO member firm auditors operating under our instruction, based on the location of the business processes within the wider Ford Group.

Independent Auditor's Report to the Members of FCE Bank plc

Our involvement with component auditors

We issued group reporting instructions to component auditors and instructions to the auditors of the selected business processes. Each of these instructions included the required nature, timing and extent of procedures to be performed, materiality levels to be used, compliance with the UK ethical standard, UK auditing standards and independence regulations. Our engagement with these teams included regular meetings to discuss the audit approach and any issues arising in their work, reviews of formal reporting documents and selected working papers, ensuring that the work performed was adequate for the purpose of our Group audit opinion. In addition, we met with the local management of Ford Bank GmbH, the significant component.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our 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) that we identified, 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 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.

Independent Auditor's Report to the Members of FCE Bank plc

Key audit matter		How the scope of our audit addressed the key audit matter
Revenue recognition Refer to Note 2 (Net interest income), and Note 34 (Related party transactions)	The Group's interest income is recognised on an Effective Interest Rate (EIR) basis, and for finance leases, on a basis which represents a constant periodic rate of return on the net investment in the lease. Interest income represents amounts charged to retail and wholesale customers, as well as interest supplements earned from related parties. Errors within the underlying inputs to interest income calculations could result in the material misstatement of revenue. As a result of the magnitude of interest income and its significance to the financial statements, the revenue recognition thereof was considered to be a key area of focus for our audit.	Our procedures included the following: We evaluated the design and implementation and tested the operating effectiveness of controls over the entry of interest rates, and entry of loan and finance lease contracts into the relevant systems, including the identification of contracts that contained interest supplements from related parties, review and approval of manual adjustments, and the automated calculation of interest income for retail, wholesale and interest supplements from related parties. We assessed whether the Group's revenue recognition policies were appropriate and in compliance with the requirements of IFRS 9 & IFRS 16, including the treatment of integral fees included within the EIR. We challenged the assumptions used by management in the calculation of the EIR, including an assessment of the appropriateness of the expected life of loan contracts using the Group's historic loan data. We used data auditing techniques to recalculate interest income for a sample of markets, covering retail, wholesale and interest supplements earned from related parties. Where we did not use data auditing techniques we performed other detailed procedures to recalculate interest income recognised to check that it was appropriately recorded. We verified a sample of interest income and loans recognised back to underlying contracts, agreeing the key contractual terms of the agreement into the systems in which the related interest income is calculated. Key observations: Based on the procedures performed, we did not identify any indicators that the data or assumptions included within the calculation of interest income was inappropriate.

Independent Auditor's Report to the Members of FCE Bank plc

Loan loss provisioning Refer to Note 1D (Classification and Measurement of Financial assets and Financial liabilities) Note 13 (Allowance for expected credit losses), and Note 29 (Credit risk)	*The provision for expected credit losses* on Loans and Advances to Customers is £24m (2021: £33m). Of this provision, £16m (2021: £12m) was calculated by the provisioning model, and £8m (2021: £21m) was a judgemental management overlay. Commensurate with the activities of the Group the Expected Credit Loss (ECL) provision is a material balance subject to management judgement and estimation. The key management judgements and estimates in respect of the calculation of model driven expected credit losses are considered to be the methodologies associated with the calculation of the Probability of default, and the Loss given default. Management also apply adjustments of a judgemental nature, based on their best estimate of the credit risk, in instances that they believe that the allowances calculated by the model are not appropriate. Included in the management judgement overlay is an adjustment arising from historical data used in the models not capturing the current conditions arising from inflationary and interest rate pressures. Loan loss provisioning was determined to be a significant audit risk and key audit matter because it is a complex area which requires significant judgement.	*Our procedures included the following:* We evaluated the design and implementation and tested the operating effectiveness of controls over the completeness and accuracy of data input into the model, the allocation of assets into stages, management's validation of the output of the impairment model by running a separate challenger model, reviewing the approval of the key assumptions including macroeconomic factors and reviewing the governance and approval of post model adjustments. We assessed the overall characteristics of the Group's loan book and considered whether management's processes for the identification and treatment of underperforming loans was appropriate in light of these characteristics. We assessed the methodology for determining Significant Increase in Credit Risk criteria with reference to the requirements of the applicable accounting standard, including evaluating the impact of modifications to loan terms. We evaluated the criteria used to allocate assets to each stage in accordance with IFRS 9 and independently tested the staging allocation of loan assets. We evaluated the appropriateness of the source of the information used by the Group to determine Probability of Default, Loss Given Default and Exposure at Default. We made an assessment of the completeness and accuracy of the credit provision by reference to internal and external information to establish if provisioning was in accordance with requirements of accounting standards. With the support of our internal valuations experts, we assessed the appropriateness of the predictive model used and assessed the macro-economic scenarios, including challenging the probability weightings and comparing to other scenarios from external sources. This included assessing whether forecasted macro-economic variables such as unemployment rates were appropriate. With the assistance of our internal IT specialists we reviewed the code within the challenger model which recalculates the ECL provision to check its compliance with Group policies and applicable accounting standards, and to assess the accuracy of the model. With the use of our internal valuations experts, we assessed the methodology used for calculating the post model adjustment to take account of the current inflationary and interest rate pressures, and challenged management on the appropriateness of each of the significant inputs.

		Key observations: We consider that the judgements made by management in calculating the provision for expected credit losses to be appropriate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

Independent Auditor's Report to the Members of FCE Bank plc

	Group financial statements		*Parent company financial statements*	
	2022 £m	2021 £m	2022 £m	2021 £m
Materiality	£13.98	£11.93	£7.72	£7.34
Basis for determining materiality	5% of the three year average Profit before tax, for the years ended 31 December 2020 to 31 December 2022	5% of profit before tax	5% of the three year average Profit before tax, for the years ended 31 December 2020 to 31 December 2022, excluding dividends received from subsidiaries	5% of profit before tax
Rationale for the benchmark applied	We determined that *profit before tax* represented the most useful benchmark for the users of the financial statements, as financial performance was considered the main driver of the Group. A three year average profit before tax was utilised considering the volatility of profits from derivative financial instruments recognised by the Group between years.	We determined that *profit before tax* represented the most useful benchmark for the users of the financial statements, as financial performance was considered the main driver of the Group.	We determined that *profit before tax* (excluding dividend income) represented the most useful benchmark for the users of the financial statements, as financial performance was considered the main driver of the Parent Company. Dividend income has been excluded as it is not considered indicative of the performance of the Parent Company. A three year average profit before tax (excluding dividend income) was utilised considering the volatility of profits from derivative financial instruments recognised by the Parent Company between years.	We determined that *profit before tax* represented the most useful benchmark for the users of the financial statements, as financial performance was considered the main driver of the Parent Company.
Performance materiality	£9.79	£7.75	£5.40	£4.77
Basis for determining performance materiality	70% of materiality, determined on the basis of our risk assessment together with our assessment of the overall control environment.	65% of materiality, determined on the basis of our risk assessment together with our assessment of the overall control environment and the fact that this was our first year as auditor.	70% of materiality, determined on the basis of our risk assessment together with our assessment of the overall control environment.	65% of materiality, determined on the basis of our risk assessment together with our assessment of the overall control environment and the fact that this was our first year as auditor.

Component materiality

We set materiality for each significant component of the Group, apart from the Parent Company whose materiality is set out above, based on a percentage of 75% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality was set at £10.52m. In the audit of the component, we further applied a performance materiality level of 70% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £0.7m (2021: £0.6m). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Independent Auditor's Report to the Members of FCE Bank plc

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on 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 the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • The Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • The Parent Company financial statements are not in agreement with the accounting records and returns; or • Certain disclosures of Directors' remuneration specified by law are not made; or • We have not received all the information and explanations we require for our audit.

Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 38 for the financial year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors 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 Parent 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 Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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

Independent Auditor's Report to the Members of FCE Bank plc

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.

Extent to which the audit was capable of 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 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:

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. This included, but was not limited to, compliance with laws and regulations that have a direct impact on the preparation of the financial statements, including the Companies Act 2006 and UK adopted International Accounting Standards. We also considered the Group's compliance with licence conditions and supervisory requirements of the PRA, the Financial Conduct Authority (FCA), and relevant tax legislation. With the assistance of our forensic accounting specialists, we assessed the potential incentives and opportunities for fraudulent manipulation of the Group's business processes and the financial statements by members of management and considered Management override of controls to be an area of audit focus.

Audit procedures performed by the engagement team included the following:

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with the relevant laws and regulations discussed above;
- Reading minutes of meetings of those charged with governance and reviewing correspondence with the FCA and PRA for any instances of non-compliance with laws or regulations;
- Enquiring of management, including Internal Audit and Compliance, in relation to known or suspected instances of fraud;
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries related to areas susceptible to fraud risk and other adjustments, and agreeing them to supporting documentation; and
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias, including those noted in our key audit matters section of our report.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit. This included communicating relevant identified laws and regulations and potential fraud risks to the component auditor and reviewing their work performed in this regard.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that 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, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
D Taylor
A26B5174278F419...

Daniel Taylor (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London

16 March 2023
BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

		Group	
For the year ended 31 December	**Note**	**2022 £ mil**	**2021 £ mil**
Interest income		576	552
Interest expense		(170)	(162)
NET INTEREST INCOME	2	**406**	**390**
Fees and commissions income		62	53
Fees and commissions expense		(6)	(8)
NET FEES AND COMMISSIONS INCOME	3	**56**	**45**
Income from leasing & other operating income	4	54	164
TOTAL INCOME		**516**	**599**
Allowance for expected credit losses	13	4	5
Operating expenses	5	(255)	(239)
Gain/(Loss) on disposal of Operating Leases	15	30	(16)
Depreciation of property and equipment	15	(29)	(131)
Depreciation of right-of-use assets	16	(5)	(8)
Gain/(Loss) on fair value adjustment - non designated derivatives	10	128	46
Gain/(Loss) on foreign exchange	7	28	(18)
PROFIT BEFORE TAX		**417**	**238**
Income tax expense	8	(130)	(84)
PROFIT AFTER TAX AND PROFIT FOR THE PERIOD		**287**	**154**
Translation differences on foreign currency net investments		78	(115)
ITEMS THAT CAN BE RECYCLED THROUGH PROFIT OR LOSS		**78**	**(115)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**365**	**39**

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 2022 £ mil	Company 2021 £ mil	Group 2022 £ mil	Group 2021 £ mil
ASSETS					
Cash and cash equivalents	9	1,346	776	2,536	1,822
Derivative financial instruments	10	130	47	301	63
Other assets	11	1,889	2,931	441	320
Loans and advances to customers	12	7,341	6,176	14,297	12,602
Property and equipment	15	2	2	99	162
Right-of-use assets	16	12	14	15	17
Intangible assets	17	46	38	46	38
Income taxes receivable	18	39	6	40	6
Deferred tax assets	19	28	35	28	35
Investment in other entities	20	1,044	1,104	—	—
TOTAL ASSETS		**11,877**	**11,129**	**17,803**	**15,065**
LIABILITIES					
Financial liabilities	21	4,715	5,154	7,542	6,987
Lease liabilities	16	12	14	15	17
Deposits	23	4,520	3,165	7,131	5,001
Derivative financial instruments	10	61	14	135	16
Other liabilities and provisions	24	251	130	390	235
Income taxes payable	18	18	18	26	40
Deferred tax liabilities	19	8	9	62	27
TOTAL LIABILITIES		**9,585**	**8,504**	**15,301**	**12,323**
SHAREHOLDERS' EQUITY					
Ordinary shares	25	614	614	614	614
Share premium	25	352	352	352	352
Retained earnings		1,326	1,659	1,536	1,776
TOTAL SHAREHOLDERS' EQUITY		**2,292**	**2,625**	**2,502**	**2,742**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**11,877**	**11,129**	**17,803**	**15,065**

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

The financial statements on pages 51 to 133 were approved by the Board of Directors on 15 March 2023 and were signed on its behalf by:

Carlos Treadway

Carlos Treadway
Chief Executive Officer
15 March 2023

Paul Kiernan

Paul Kiernan
Executive Director, Finance
15 March 2023

Registered Number: 00772784

Statements of Cash Flows

For the year ended 31 December	Note	Company 2022 £ mil	Company 2021 (Restated)* £ mil	Group 2022 £ mil	Group 2021 (Restated)* £ mil
Cash flows from operating activities					
Cash from operating activities	36	(985)	1,391	(1,431)	2,574
Interest paid		(139)	(165)	(177)	(184)
Interest received		289	561	442	836
Other operating income received		—	—	26	109
Income taxes paid		(85)	(24)	(133)	(43)
Net cash generated from / (used in) operating activities		**(920)**	**1,763**	**(1,273)**	**3,292**
Cash flows from investing activities					
Purchase of property and equipment		(4)	—	(6)	(1)
Proceeds from sale of property and equipment		—	4	—	6
Investment in internally and externally generated software		(15)	(11)	(15)	(11)
Net cash movement in sale of subsidiaries		10		(13)	
Net cash inflow on derivative financial instruments*		19	49	29	44
Increase in restricted cash*		(50)	(77)	(73)	(97)
Decrease in restricted cash*		41	430	63	463
Dividend from Subsidiaries		89	8	—	—
Net cash generated from / (used in) investing activities		**90**	**403**	**(15)**	**404**
Cash flows from financing activities					
Proceeds from the issue of debt securities and from loans provided by banks and other financial institutions		1,777	510	4,482	2,972
Repayments of debt securities and of loans provided by banks and other financial institutions		(2,654)	(2,822)	(3,861)	(6,212)
Proceeds of funds provided by parent and related undertakings		2,545	888	568	398
Repayment of funds provided by parent and related undertakings		(812)	(838)	(480)	(2,614)
Net decrease/(increase) in short-term borrowings		(222)	498	(168)	472
Net increase/(decrease) in deposits		1,355	(444)	2,005	1,427
Dividend Paid		(600)	(300)	(600)	(300)
Net cash generated from / (used in) financing activities		**1,389**	**(2,508)**	**1,946**	**(3,857)**
Net (decrease)/increase in cash and cash equivalents	36	**559**	**(342)**	**658**	**(161)**
Cash and cash equivalents at beginning of year	36	776	1,143	1,822	2,048
Effect of exchange rate changes on cash and cash equivalents		11	(25)	56	(65)
Cash and cash equivalents at end of year	36	**1,346**	**776**	**2,536**	**1,822**

For the restatement, please see note 36 on page 129.

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 2021	614	352	1,500	423	1,923	2,889
Profit for the year	—	—	88	—	88	88
Translation differences	—	—	—	(52)	(52)	(52)
Total comprehensive income for the year ended 31 December 2021	**—**	**—**	**88**	**(52)**	**36**	**36**
Dividend Paid	**—**	**—**	**(300)**	**—**	**(300)**	**(300)**
Other equity adjustments	—	—	—	—	—	—
Balance at 31 December 2021/1 January 2022	614	352	1,288	371	1,659	2,625
Profit for the year	—	—	248	—	248	248
Translation differences	—	—	—	19	19	19
Total comprehensive income for the year ended 31 December 2022	**—**	**—**	**248**	**19**	**267**	**267**
Dividend Paid	**—**	**—**	**(600)**	**—**	**(600)**	**(600)**
Other equity adjustments	—	—	—	—	—	—
Balance at 31 December 2022	**614**	**352**	**936**	**390**	**1,326**	**2,292**

Statements of Changes in Equity

Group	Share capital	Share premium	Profit or loss reserve	Translation reserve	Total retained earnings	Total
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
Balance at 1 January 2021	**614**	**352**	**1,577**	**460**	**2,037**	**3,003**
Profit for the year	—	—	154	—	154	154
Translation differences	—	—	—	(115)	(115)	(115)
Total comprehensive income for the year ended 31 December 2021	—	—	**154**	**(115)**	**39**	**39**
Dividend Paid	—	—	**(300)**	—	**(300)**	**(300)**
Other equity adjustments	—	—	—	—	—	—
Balance at 31 December 2021/1 January 2022	**614**	**352**	**1,431**	**345**	**1,776**	**2,742**
Profit for the year	—	—	287	—	287	287
Translation differences	—	—	—	89	89	89
Reclassification of foreign exchange on transfer of subsidiaries	—	—	—	(11)	(11)	(11)
Total comprehensive income for the year ended 31 December 2022	—	—	**287**	**78**	**365**	**365**
Dividend Paid	—	—	(600)	—	(600)	(600)
Other equity adjustments	—	—	(5)	—	(5)	(5)
Balance at 31 December 2022	**614**	**352**	**1,113**	**423**	**1,536**	**2,502**

Index to the Notes to the Financial Statements for the Year ended 31 December 2022

Index to the Notes to the Financial Statements

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

1 ACCOUNTING POLICIES

The principal accounting policies adopted in the presentation of the financial statements are set out below. Further details on specific items can be found within the accompanying notes to the accounts.

Index to the Accounting Policies

A BASIS OF PRESENTATION

These financial statements have been prepared in accordance with UK adopted international accounting standards. The consolidated financial statements, in addition to complying with UK adopted international accounting standards, have also been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB). The financial statements are prepared under a historical cost convention with the exception of certain financial assets and liabilities which are stated at fair value.

The Directors have made an assessment of going concern, taking into account both current performance and the Group's outlook, including consideration of the recent global pandemic and global inventory shortages, projections for the Group's capital and funding position and the general economic outlook. 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.

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, its 8 European branches and all its 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 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.

The statements of profit or loss and statements of cash flows of branches and subsidiaries outside of the UK are translated into the Company's and the Group's presentation 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.

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.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

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. Acquisition related costs are accounted for as expenses in the periods in which the costs are incurred. 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 the 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 as a result of the economic effects of the cost of living crisis. 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. These are covered as a part of Note 13 'Allowance for Expected Credit Losses'.

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 the use of estimates that reasonably could have been different 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')

Allowance for Credit Losses

The allowance for credit losses represents FCE's estimate of the expected lifetime credit losses inherent in retail and finance receivables as of the financial reporting date. The adequacy of the allowance for credit losses is assessed quarterly and the assumptions and models used in establishing the allowance are evaluated regularly. As credit losses can vary substantially over time, estimating credit losses requires a number of assumptions about matters that are uncertain.

Changes in assumptions affect allowance for expected credit losses in our income statement and Loans and Advances in the statement of financial position.

1 ACCOUNTING POLICIES CONTINUED

Nature of Estimates Required. *FCE* estimates the allowance for credit losses for receivables that share similar risk characteristics based on a collective assessment using a combination of measurement models and management judgment. The models consider factors such as historical trends in credit losses, recent portfolio performance, and forward-looking macroeconomic conditions. If management does not believe the models reflect lifetime expected credit losses for the portfolio, an adjustment is made to reflect management judgment regarding qualitative factors including economic uncertainty, observable changes in portfolio performance, and other relevant factors.

Assumptions Used. FCE's allowance for expected credit losses is based on assumptions regarding:
• *Probability of default.* The expected probability of payment and time to default which include assumptions about macroeconomic factors and recent performance.Macroeconomic factors used in our models are country specific and include variables such as unemployment rates, housing prices, inflation, and gross domestic product.

• *Loss given default.* The percentage of the expected balance due at default that is not recoverable. The loss given default takes into account the expected collateral value and future recoveries.

Sensitivity Analysis. *Changes in the probability of default and loss given default assumptions would affect the allowance for* credit losses. For further details of the effect of changes in the assumptions on Loans and Advances, refer to Note 13 'Allowance for Expected Credit Losses'.

Vehicle Residual Values and Depreciation

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.

FCE monitors residual values each month, and reviews its forecasts on a quarterly basis. The expected residual values for the vehicles are adjusted to reflect a revised estimate at the end of the lease term. Such adjustments would result in a change in the depreciation rates of the vehicles subject to operating leases and are recorded prospectively on a straight-line basis.

For additional information on our residual risk on finance and operating leases, refer to Note 30 " Vehicle Residual Values".

Nature of Estimates Required. Each vehicle in the leasing portfolio represents a vehicle FCE owns that has been leased to a customer. FCE establishes an expected residual value for all vehicles when purchased. FCE estimates the expected residual value by evaluating recent auction values, return volumes for the leased vehicles, industry wide used vehicle prices, marketing incentive plans, and vehicle quality data.

Assumptions Used. Vehicle residual values are based on assumptions regarding:
• Auction value. The projection of the market value of the vehicles when sold at the end of the lease; and
• Return volume. The projection of the number of vehicles that will be returned at lease end.

Sensitivity Analysis. For returned vehicles, FCE faces a risk that the amount received from the vehicle sold at auction will be less than the estimate of the expected residual value for the vehicle. For Operating leases, the impact of the change in assumptions on future auction values and return volumes would increase or decrease accumulated supplemental depreciation and depreciation expense over the remaining terms of the operating leases. A change in the assumption for an auction value will impact our estimate of accumulated supplemental depreciation if the future auction value is lower than the purchase price specified in the lease contract. For further details of the effect of changes in the assumptions on operating leases, refer to Note 30 'Vehicle Residual Values'.

Operating lease

All operating lease vehicles are subject to return at the end of the lease period unlike retail and finance receivable products. The German operating lease portfolio–is the main source of FCE's operating lease residual value risk. These leased assets are amortised on a straight -line basis over the lease term to the expected residual value, which is based primarily on the market value of the leased vehicles.

In the course of preparing the financial statements, no significant judgement has 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.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

1 ACCOUNTING POLICIES CONTINUED

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 represent solely payments of principal and interest. 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 flows for a group of assets and 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 and 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 de-recognition 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 effective interest method is a means of discounting expected future cash flows over the expected life of a financial instrument to its net carrying amount at initial recognition. 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 represent solely payment of principal and 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 2022

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.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

1 ACCOUNTING POLICIES CONTINUED

G ACCOUNTING STANDARDS DEVELOPMENT - IFRS

The following accounting standard amendments/interpretations are mandatory for the financial year beginning 1 January 2022 but are either not relevant or do not have a material impact on the Group's consolidated financial statements:

- Amendments to IAS 16 'Property, Plant and Equipment' - Proceeds before intended use
- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets - Onerous contracts
- Annual Improvements to IFRS Standards 2018-2020 cycle:
  - IFRS1 'First-time Adoption of International Financial Reporting Standards',
  - IFRS 9 'Financial Instruments'
  - IFRS 16 'Leases' – Amendment to illustrative examples
  - IAS 41 'Agriculture'
- Amendments to IFRS 16 'Leases' – COVID-19-Related Rent Concessions
- Amendments to IFRS 3 'Business Combinations' - Reference to the Conceptual Framework

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'
- Amendments to IFRS 4 'Insurance Contracts' – Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'
- Amendments to IAS 1 'Presentation of Financial Statements' – Classification of liabilities and disclosure of accounting policies
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' – definition of accounting estimates
- Amendments to IAS 12 'Income taxes' – deferred tax on lease and decommissioning obligations

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 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 is the same as the contractual term, given this is the most likely outcome at the outset of the contract.

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		**2022**	**2021**
		£ mil	**£ mil**
Interest income	**Note**		
Loans and advances to external parties		199	203
Related parties	34	365	347
Adjustment relating to residual values	14	0	2
Cash and short-term deposit income from external parties and other miscellaneous income		12	0
Total interest income		**576**	**552**
Interest expense			
External parties		(97)	(89)
Related parties	34	(73)	(73)
Total interest expense		**(170)**	**(162)**
Net interest income		**406**	**390**

'Interest income from loans and advances to external parties' includes revenue from retail, finance lease and wholesale product segments, of which £3 million (2021: £4 million) relates to financial assets classified as FVPL. Income from operating lease vehicles 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 £12 million (2021: £9 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.

'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'.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

3 NET FEES AND COMMISSIONS INCOME

Fees and commissions income and expense are recognised when earned or incurred, net of any taxes payable.

	Group	
For the year ended 31 December	**2022**	**2021**
	£ mil	**£ mil**
Fees and commissions income		
Finance related and other fee income	47	36
Insurance sales commission income	15	17
Total fees and commissions income	**62**	**53**
Fees and commissions expense		
Finance related and other fee expense	(6)	(8)
Total fees and commissions expense	**(6)**	**(8)**
Net fees and commissions income	**56**	**45**

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 statement or payment 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 rebatable 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.

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	**2022**	**2021**
	£ mil	**£ mil**
Income from operating leases	36	163
Other operating income	18	1
Total other operating income	**54**	**164**

'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 is recorded within Note 15 'Property and Equipment'.

'Other operating income' relates primarily to foreign currency translation reserves recognised in the group on the transfer of its subsidiaries Ford Credit (Switzerland) GmbH, Ford Credit (Czech) s.r.o and FCE Credit Hungária Zrt to Ford ECO GmbH during the year.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

5 OPERATING EXPENSES

For the year ended 31 December	Note	Group 2022 £ mil	2021 £ mil
Staff costs			
Wages and salaries		99	96
Social security contributions		12	12
Retirement benefits	27	22	22
Total staff costs		**133**	**130**
Other expenses			
Software amortisation	17	7	6
Administrative expenses		111	97
Other expenses		4	6
Total other expenses		**122**	**109**
Total operating expenses		**255**	**239**

	Number of employees	
Monthly average number of permanent employees during the year	**1,319**	**1,375**

'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 below.

Auditor Remuneration

For the year ended 31 December	Company 2022 £ 000's	Company 2021 £ 000's	Group 2022 £ 000's	Group 2021 £ 000's
Nature of services:				
Audit services				
Audit of parent company and consolidated accounts	2,371	2,069	2,371	2,069
Audit of subsidiaries and SEs pursuant to legislation	—	—	94	171
Total audit services	**2,371**	**2,069**	**2,465**	**2,240**
Assurance services				
Audit related assurance services	—	—	—	—
Other assurance services	45	—	45	—
Total assurance services	**45**	—	**45**	—
Total fees	**2,416**	**2,069**	**2,510**	**2,240**

For further details on the policies and procedures that govern the engagement of BDO, please refer to the Audit Committee report on page 38 and 39.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

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 12 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 34.

Company		2022			2021	
	Directors	Officers	Total	Directors	Officers	Total
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Loans						
Outstanding at 1 January	91	283	374	90	294	384
Issued in the year	120	290	410	87	267	354
Repayments during the year	(67)	(331)	(398)	(86)	(278)	(364)
Loans outstanding at 31 December	**144**	**242**	**386**	**91**	**283**	**374**
Maximum loans in period	143	287	430	116	300	416
Revenue						
Interest revenue from loans	4	10	14	2	5	7
Remuneration payments						
Salaries/other short-term benefits	1,383	1,946	3,329	1,618	1,748	3,366
Post-employment benefits	215	435	650	223	580	803
Share based payments	243	178	421	326	171	497
Total remuneration payments	**1,841**	**2,559**	**4,400**	**2,167**	**2,499**	**4,666**
Customer Deposits						
Deposits during the year	170	164	334	101	321	422
Customer Deposits at 31 December	**170**	**164**	**334**	**101**	**321**	**422**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

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 paid monthly as incurred and no interest was outstanding at year-end. The terms of the loans are not intended to last for longer than twelve months. When the loans mature the employee may settle the loan directly with FCE or by returning the vehicle.

Salaries/other short-term benefits

There were two termination payments made in 2022 to two Officers of £278,094.26.

Post-employment benefits

Retirement benefits are accruing to 3 current Directors and 12 current Officers (2021:two Directors and six Officers) under various Ford retirement benefit schemes.

Share Based Payments

FCE is allocated a restricted stock unit(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, for 2022 this is £421,000, (2021 £497,000).

During the financial year ended 31 December 2022 no Director or Officer exercised their share options held over Ford Common Stock.

Shares were receivable under a Long Term Incentive scheme by three Directors and twelve Officers in 2022.

Directors Emoluments

Aggregate emoluments for the highest paid Director were £624,052 (2021: £497,686).

The highest paid Director in 2022 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 2022 for the highest paid Director. The projected accrued annual benefit at age 65 for the highest paid Director in 2022 was £91,990.

The highest paid Director in 2021 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 2021 for the highest paid Director. The projected accrued annual benefit at age 65 for the highest paid Director in 2021 was £68,893.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

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 gain on 'foreign currency debt obligations' of £28 million *(2021: £18 million loss) is substantially offset by fair* value losses on 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	**2022** **£ mil**	**2021** **£ mil**
Foreign currency debt obligations	28	(18)
Total gain/(loss) on foreign exchange	**28**	**(18)**

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**	**2022**	**2021**
		£ mil	**£ mil**
Current tax:			
UK Corporation tax		40	22
Overseas taxation		46	39
Prior year: corporation tax		(1)	(3)
Income tax expense - current		**85**	**58**
Deferred tax:			
Current year		43	19
Prior year		2	7
Income tax - deferred	**19**	**45**	**26**
As recorded in income statement		**130**	**84**

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

	Group	
For the year ended 31 December	**2022**	**2021**
	£ mil	**£ mil**
Profit on ordinary activities before tax	**417**	**238**
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19%	79	45
Effects of:		
Foreign taxes higher/(lower) than UK tax rate	23	14
Prior year current and deferred tax	—	4
Bank surcharge	11	5
Changes in tax rates	3	(3)
Charge for deferred tax assets no longer recognised	—	14
Non taxable UK income	(3)	—
Withholding taxes and (Income)/expenses not (taxable)/deductible for tax	17	5
Income tax expense	**130**	**84**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

9 CASH AND CASH EQUIVALENTS

	Company		Group	
As at 31 December	**2022** **£ mil**	**2021** **£ mil**	**2022** **£ mil**	**2021** **£ mil**
Cash in bank	752	776	764	1,580
Cash equivalents	559	—	1,454	—
Cash and cash equivalents	**1,311**	**776**	**2,218**	**1,580**
Securitisation cash and cash equivalents	35	—	250	178
Collateralised deposits	—	—	68	64
Cash associated with securitisation transactions	35	—	318	242
Total cash and cash equivalents	**1,346**	**776**	**2,536**	**1,822**

'Cash and cash equivalents' include cash and highly liquid investments with a maturity of 90 days or less at date of acquisition and that are subject to an insignificant risk of changes in value. Cash in bank is primarily cash held at central banks and is held at amortised cost.

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

'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.

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 set-off 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 are 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., EURIBOR, 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.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

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 from / (used in) investing activities in our statement of cash flows.

All interest rate swaps referencing LIBOR requiring conversion to an alternative interest rate have been transitioned.

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	**2022 £ mil**	**2021 £ mil**
Derivative not designated as hedging instruments		
Net interest settlements and accruals	19	(4)
Fair value changes on non-designated derivatives		
Interest rate contracts	148	29
Cross-currency interest rate contracts	—	(13)
Foreign exchange forwards	(20)	30
Total fair value changes on non-designated derivatives	128	46
Total non-designated derivatives	**147**	**42**

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 our 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 2022

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	2022			2021		
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
		Fair value			Fair value	
	Notional	Assets	Liabilities	Notional	Assets	Liabilities
Non-designated derivatives						
Interest rate contracts	6,856	128	54	8,207	35	14
Cross currency interest rate contracts	—	—	—	—	—	—
Foreign currency exchange contracts	507	2	7	825	12	—
Total non-designated derivatives	**7,363**	**130**	**61**	**9,032**	**47**	**14**
Total derivative financial instruments	**7,363**	**130**	**61**	**9,032**	**47**	**14**
Derivatives centrally cleared	5,323	128	25	5,741	18	6
Derivatives bilateral collateralised	1,533	—	29	1,290	—	8
Derivatives not cleared	507	2	7	2,001	29	—
Total derivative financial instruments	**7,363**	**130**	**61**	**9,032**	**47**	**14**
Current portion	—	83	39	—	26	11
Non-current portion	—	47	22	—	21	3
Total derivative financial instruments	**—**	**130**	**61**	**—**	**47**	**14**

Group

As at 31 December	2022			2021		
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
		Fair value			Fair value	
	Notional	Assets	Liabilities	Notional	Assets	Liabilities
Non-designated derivatives						
Interest rate contracts	15,432	299	128	14,411	51	16
Cross currency interest rate contracts	—	—	—	—	—	—
Foreign currency exchange contracts	507	2	7	825	12	—
Total non-designated derivatives	**15,939**	**301**	**135**	**15,236**	**63**	**16**
Total derivative financial instruments	**15,939**	**301**	**135**	**15,236**	**63**	**16**
Derivatives centrally cleared	10,238	207	72	8,135	25	6
Derivatives bilateral collateralised	2,337	11	55	2,479	—	10
Derivatives not cleared	3,364	83	8	4,622	38	—
Total derivative financial instruments	**15,939**	**301**	**135**	**15,236**	**63**	**16**
Current portion	—	194	83	—	29	10
Non-current portion	—	107	52	—	34	6
Total derivative financial instruments	**—**	**301**	**135**	**—**	**63**	**16**

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

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

10 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES CONTINUED

The fair value of the Company and the Group's derivative instruments at December 31 were as follows (in millions): The table also includes collateral exchanged for the margining of derivatives.

	2022		2021	
Company	**Assets £ mil**	**Liabilities £ mil**	**Assets £ mil**	**Liabilities £ mil**
Gross derivatives amount recognised in the statement of financial position	130	61	47	14
Related amounts not offset				
Amounts subject to master netting agreements	—	—	—	—
Cash collateral posted/held	91	124	37	13
Net Amounts	**221**	**185**	**84**	**27**

	2022		2021	
Group	**Assets £ mil**	**Liabilities £ mil**	**Assets £ mil**	**Liabilities £ mil**
Gross derivatives amount recognised in the statement of financial position	301	135	63	16
Related amounts not offset				
Amounts subject to master netting agreements	—	—	—	—
Cash collateral posted/held	161	174	51	19
Net Amounts	**462**	**309**	**114**	**35**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

11 OTHER ASSETS

Policy

"The carrying value of 'Other assets' except vehicles awaiting resale 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 guaranteed residual value.

Gains and losses for vehicles returned from retail and finance lease contracts are included in the statement of profit or loss within 'Interest income'. Further details of Gains and losses of Operating lease vehicles are disclosed in Note 15 'Plant and Equipment'.

Other assets at 31 December were as follows:

		Company		Group	
As at 31 December		**2022 £ mil**	**2021 £ mil**	**2022 £ mil**	**2021 £ mil**
Short-term receivables	**Note**				
Related parties	34	32	8	106	21
External		20	20	42	33
Subsidiary undertakings	34	26	24	—	—
Cash Collateral Paid		58	13	112	15
Sub-total short-term receivable		**136**	**65**	**260**	**69**
Loans receivable					
Subsidiary undertakings	34	1,642	2,728	—	—
Sub-total loans receivable		**1,642**	**2,728**	**—**	**—**
Vehicles awaiting resale		22	8	46	85
Restricted cash		69	59	104	92
Prepayments and accrued income		10	47	13	49
Prepaid taxes and related interest		10	24	18	25
Total other assets		**1,889**	**2,931**	**441**	**320**
Current		952	1,178	336	192
Non-current		937	1,753	105	128
Total other assets		**1,889**	**2,931**	**441**	**320**

The book value of short-term receivables and loans receivable approximates fair value due to the short maturities of these assets.

'Cash Collateral Paid' relates to variation margin paid by FCE from the margining of derivative contracts. This was previously included within Short-term receivables - External.

'Loans receivable' these loans are usually revolving in nature allowing subsidiaries to repay in line with receivable levels.

'Restricted cash' includes cash in central banks to be held as minimum reserves and cash required as initial margin collateral.

'Prepayments and accrued income' include sundry prepaid expenses (insurance, rent & property related services, postage, etc.), capitalised commitment fees, and deferred charges.

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 our 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		**2022**	**2021**	**2022**	**2021**
		£ mil	**£ mil**	**£ mil**	**£ mil**
Loans and advances to customers	**Note**				
Retail loans and receivables		583	647	4,563	4,861
Finance lease		3,425	3,522	4,491	4,538
Wholesale (a)		3,345	2,025	5,267	3,236
Gross loans and advances to customers		**7,353**	**6,194**	**14,321**	**12,635**
Allowance for expected credit losses	13	(12)	(18)	(24)	(33)
Net loans and advances to customers		**7,341**	**6,176**	**14,297**	**12,602**
Current		4,654	3,550	8,377	6,594
Non-current		2,687	2,626	5,920	6,008
Net Loans and advances to customers		**7,341**	**6,176**	**14,297**	**12,602**
Fair value					
Retail loans and receivables		567	657	4,470	4,997
Finance Lease		3,343	3,577	4,390	4,635
Wholesale		3,345	2,021	5,267	3,233
Total fair value		**7,255**	**6,255**	**14,127**	**12,865**

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 £540 million (2021 : £309 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 £15 m (2021: £14 m) 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.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

12 LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Finance Leases

As at 31 December	Company		Group	
Finance Lease	**2022 £ mil**	**2021 £ mil**	**2022 £ mil**	**2021 £ mil**
Within 1 year	517	627	883	840
After 1 year and within 2 years	539	575	793	883
After 2 year and within 3 years	443	427	764	685
After 3 year and within 4 years	148	130	367	300
After 4 year and within 5 years	4	5	7	136
After 5 years	—	—	—	4
Total finance lease payments receivable	**1,651**	**1,764**	**2,814**	**2,848**
Unguaranteed residual value	2,042	1,964	2,042	1,964
Unearned finance income	(101)	(67)	(156)	(116)
Unearned interest supplements from related parties	(205)	(175)	(252)	(199)
Allowance for expected credit losses	(10)	(13)	(12)	(16)
Provision for vehicle residual value losses	—	—	—	—
Deferred origination costs	38	36	43	41
Net investment in finance leases	**3,415**	**3,509**	**4,479**	**4,522**

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 financial assets until the date on which the assets have experienced a significant increase in credit risk relative to their 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 assets, a loss allowance is recognised equal to the credit losses expected to result from defaults over the remaining lifetime of the assets.

- Stage 3 (Lifetime ECL credit impaired) – When financial assets are 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 assets, net of the loss allowance, rather than on their gross carrying amount (GCA).

Retail and Finance Leases

FCE estimates the allowance for credit losses on retail and lease receivables using a combination of measurement models and management judgment. 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) and Loss Given Default (LGD), applied to the Exposure at Default (EAD)

- The PD 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 LGD is the percentage of the expected balance due at default that is not recoverable, taking account the expected collateral value.
- The EAD is the expected principal and interest balance due at default.

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.

When evaluating receivables on a collective basis, FCE segments the contracts on the basis of shared risk characteristics taking into account product type, term, vintage, geography, new/used vehicle financing and other relevant factors.

Macroeconomic Credit Risk Modelling

A wide range of historical macroeconomic data is considered to identify predictive variables that may impact FCE's credit losses. Variables identified as predictive and utilised include GDP Growth, CPI, Housing Price Index, and Import of Goods. Unemployment Rate is a key variable used across the majority of credit risk models.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

13 ALLOWANCE FOR EXPECTED CREDIT LOSSES CONTINUED

The credit loss models incorporate forward-looking data on identified predictive variables 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 evaluates the selection of scenarios annually 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.

The macroeconomic data and forecasts are sourced from an external vendor. FCE updates the forecasts quarterly and redevelops the models as required in line with its Model Risk Management policy.

Post Model Adjustments

FCE's process to determine the adequacy of allowance for expected credit losses includes reviewing the modelled output to consider whether it reflects appropriately the wider economic circumstances. Where information suggests that the economic circumstances are beyond the normal operating parameters of the models then management may make judgmental adjustments to the modelled output. Such adjustments are subject to ongoing monitoring and approval to determine whether they continue to be required.

During 2020 and 2021, the retail and finance lease models were not able to reflect appropriately the unprecedented circumstances and macroeconomic expectations resulting from COVID-19. Accordingly, FCE applied Post-Model Adjustments at the end of 2021 in anticipation of incurring increased credit losses following the winding down of governmental pandemic support actions. FCE's portfolio remained resilient in the first half of 2022 and the ongoing monitoring of portfolio performance, the economic environment and model input variables has allowed for the release of all Post-Model Adjustments relating specifically to COVID-19.

From the second half of 2022, many of FCE's customers have begun to experience higher costs of living as food and energy prices grow and central banks respond to increasing inflation with interest rate rises. Although inflation-related variables are assessed as predictive of credit losses, FCE recognises that the unprecedented nature of the observed changes in inflation rate is not appropriately reflected within the models. As a consequence, at the end of 2022, Post-Model Adjustments that capture fully the expected impact of "cost of living" have been added to the reserves for the majority of FCE's markets.

As at 31 December 2022, the total value of Post-Model Adjustments on Retail and Finance Lease products was £8m (£16m 2021).

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

Macroeconomics – Average Unemployment Rate

	2022 Upturn		2022 Business As Usual		2022 Downturn		2021 Upturn		2021 Business As Usual		2021 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	3.8	3.8	4.2	4.5	5.3	6.6	4.9	4.1	5.4	4.8	6.3	6.6
Italy	8.3	8.1	8.5	8.4	9.9	10.2	9.3	8.8	9.5	9.1	10.9	10.9
Germany	5.3	5.0	5.6	5.5	6.7	6.9	5.4	5.0	5.3	5.2	6.4	6.9
France	7.4	7.4	7.7	7.7	8.5	8.7	7.5	7.5	7.9	7.9	8.8	8.9
Spain	13.0	12.4	13.3	12.9	15.8	14.8	13.6	12.6	14.5	13.5	17.0	16.4

Wholesale Portfolio

Given the immaterial level of wholesale losses over many years, 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.

13 ALLOWANCE FOR EXPECTED CREDIT LOSSES CONTINUED

FCE uses loss-to-receivable (LTR) ratios as a proxy for the base modelled ECL allowance. An average LTR for Wholesale is calculated by dividing credit losses by average net finance receivables for the prior 5 year period, excluding unearned interest supplements and allowance for credit losses. The average LTR that is calculated is multiplied by the end-of-period receivable balance.

Within this methodology, FCE consider the allowance for credit losses for all wholesale receivables equivalent to a lifetime expected credit loss, reflecting the short contractual and behavioural term of the portfolio. Wholesale receivables generally have a contractual term of one year, however typically settle within 90 days as payment is made when the dealer has sold the underlying financed vehicle.

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.

Significant Increase in Credit Risk (Stage 2)

In every reporting period, FCE assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis.

For retail and finance leases, FCE measures the allowance for credit loss at 12-month expected credit losses. If FCE determine the credit risk of a receivable and group of receivables has increased significantly since origination, FCE increase 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 also assume the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

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.

Credit Impaired (Stage 3)

Retail and finance lease receivables are considered credit impaired or non-performing (stage 3) when a customer is assessed as unlikely to pay its credit obligations or when an account reaches 90 days delinquent, whichever is earlier. 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 are not reclassified to stage 1.

Wholesale receivables from dealers classified as Group IV are generally considered credit-impaired. These receivables can be reclassified to stage 1 once they have cured and are up to date for a period of 12 months.

Credit impairment is aligned to FCE's definition of default.

The value of the FCE's loans and advances considered to be credit impaired at the reporting date is £72 million (2021: £127 million).

Retail, Finance Leases and Wholesale Write Off

Initial write-off against the reserve typically occurs when it is probable that FCE will be unable to collect all amounts due 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. Consequently, the amounts written off during any particular year primarily reflect accounts subject to enforcement. The amount written off in 2022 was £37 million (2021: £38 million) and recoveries in 2022 were £31 million (2021: £31 million).

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

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 31,2022 and 2021 were as follows:

	Company 2022							
	Stage 1		Stage 2		Stage 3		Total	
	GCA £ mil	ECL £ mil	GCA £ mil	ECL £ mil	GCA £ mil	ECL £ mil	GCA £ mil	ECL £ mil
Opening Balance January 2022	**6,108**	**(15)**	**57**	**(1)**	**29**	**(2)**	**6,194**	**(18)**
New receivables originated	2,221	(2)	—	—	—	—	2,221	(2)
Transfers Between Stages								
Transfers out of Stage 1	(953)	5	948	(5)	5	0	—	—
Transfers out of Stage 2	9	0	(10)	0	1	0	—	—
Transfers out of Stage 3	—	—	2	0	(2)	0	—	—
Total Transfers Between Stages	**(944)**	**5**	**940**	**(5)**	**4**	**0**	**—**	**—**
Increases/(Decreases)								
Change in Credit Risk (a)	242	5	5	0	28	(10)	275	(5)
Receivables derecognised during period	(1,395)	1	(19)	—	(29)	—	(1,443)	1
Write off	—	—	—	—	(12)	12	(12)	12
Total Increases/(Decreases)	**(1,153)**	**6**	**(14)**	**0**	**(13)**	**2**	**(1,180)**	**8**
Exchange rate movements (FX)	119	0	—	—	—	—	119	—
Closing Balance December 2022	**6,351**	**(6)**	**983**	**(6)**	**20**	**0**	**7,354**	**(12)**
Prior Year:								
Opening Balance January 2021	**9,528**	**(27)**	**948**	**(7)**	**195**	**(1)**	**10,671**	**(35)**
Movement	(3,420)	12	(891)	6	(166)	(1)	(4,477)	17
Closing Balance December 2021	**6,108**	**(15)**	**57**	**(1)**	**29**	**(2)**	**6,194**	**(18)**
Memo:								
Retail and Finance Leases	3,012	(6)	979	(6)	17	0	4,008	(12)
Wholesale	3,339	0	4	0	3	0	3,346	0
Closing Balance December 2022	**6,351**	**(6)**	**983**	**(6)**	**20**	**0**	**7,354**	**(12)**
Retail and Finance Leases	4,088	(14)	56	(1)	26	0	4,170	(15)
Wholesale	2,020	(1)	1	0	3	(2)	2,024	(3)
Closing Balance December 2021	**6,108**	**(15)**	**57**	**(1)**	**29**	**(2)**	**6,194**	**(18)**

(a) The change in credit risk 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). Changes in the GCA is primarily related to customer payments.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

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 31,2022 and 2021 were as follows:

	Group 2022							
	Stage 1		Stage 2		Stage 3		Total	
	GCA £ mil	ECL £ mil	GCA £ mil	ECL £ mil	GCA £ mil	ECL £ mil	GCA £ mil	ECL £ mil
Opening Balance January 2022	**12,355**	**(30)**	**153**	**(1)**	**127**	**(2)**	**12,635**	**(33)**
New receivables originated	4,419	(5)	—	—	—	—	4,419	(5)
Transfers Between Stages								
Transfers out of Stage 1	(1,728)	6	1,715	(6)	13	0	—	—
Transfers out of Stage 2	12	0	(13)	0	1	0	—	—
Transfers out of Stage 3	—	—	28	0	(28)	0	—	—
Total Transfers Between Stages	**(1,716)**	**6**	**1,730**	**(6)**	**(14)**	**0**	—	—
Increases/Decreases								
Change in Credit Risk (a)	(245)	13	131	(1)	89	(35)	(25)	(23)
Receivables derecognised during period	(2,692)	1	(52)	—	(89)	—	(2,833)	1
Restructuring Actions (b)	(304)	0	(3)	0	(4)	0	(311)	0
Write off	—	—	—	—	(37)	37	(37)	37
Total Increases/Decreases	**(3,241)**	**14**	**76**	**(1)**	**(41)**	**2**	**(3,206)**	**15**
Exchange rate movements (FX)	473	(1)	—	—	—	—	473	(1)
Closing Balance December 2022	**12,290**	**(16)**	**1,959**	**(8)**	**72**	**0**	**14,321**	**(24)**
Prior Year:								
Opening Balance January 2021	**14,504**	**(34)**	**1,084**	**(9)**	**262**	**(3)**	**15,850**	**(46)**
Movement	(2,149)	4	(931)	8	(135)	1	(3,215)	13
Closing Balance December 2021	**12,355**	**(30)**	**153**	**(1)**	**127**	**(2)**	**12,635**	**(33)**
Memo:								
Retail and Finance Leases	7,060	(16)	1,955	(8)	39	0	9,054	(24)
Wholesale	5,230	0	4	0	33	0	5,267	0
Closing Balance December 2022	**12,290**	**(16)**	**1,959**	**(8)**	**72**	**0**	**14,321**	**(24)**
Retail and Finance Leases	9,175	(28)	148	(1)	75	0	9,398	(29)
Wholesale	3,180	(2)	5	0	52	(2)	3,237	(4)
Closing Balance December 2021	**12,355**	**(30)**	**153**	**(1)**	**127**	**(2)**	**12,635**	**(33)**

(a) The change in credit risk 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). Changes in the GCA is primarily related to customer payments.

(b) FCE now operates in the UK and 8 other European countries following a transfer of its subsidiaries in Switzerland, Hungary and Czech Republic to its parent, Ford ECO GmbH during the year. The group results in 2022 exclude these three entities.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

13 ALLOWANCE FOR EXPECTED CREDIT LOSSES CONTINUED

Allowance for Expected Credit Losses in the Statement of Profit or Loss and other Comprehensive Income for the year ended December 31,2022 and 2021 were as follows:

	Company						Group					
	2022			2021			2022			2021		
	Retail	Whole sale	Total	Retail	Whole sale	Total	Retail	Whole sale	Total	Retail	Whole sale	Total
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
Recoveries	10	0	10	18	2	20	29	2	31	28	3	31
Write-offs	(12)	0	(12)	(21)	(1)	(22)	(37)	0	(37)	(38)	0	(38)
Net Credit Losses	**(2)**	**0**	**(2)**	**(3)**	**1**	**(2)**	**(8)**	**2**	**(6)**	**(10)**	**3**	**(7)**
Changes in Expected Credit Losses	3	3	6	2	5	7	6	4	10	4	8	12
Allowance for Expected Credit Losses	**1**	**3**	**4**	**(1)**	**6**	**5**	**(2)**	**6**	**4**	**(6)**	**11**	**5**

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 year end reserve level, the credit loss value would have increased by 39% if the downturn scenario 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 128% from £22 million to £50 million.

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

As at 31 December
Retail and Lease

	2022 Expected Credit Losses			2021 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	4	6	10	9	12	20
Italy	7	10	17	8	11	20
Germany	4	7	10	5	6	12
France	4	4	7	2	2	4
Spain	3	4	6	2	3	5
FCE Other	0	0	0	1	1	1
Total FCE	**22**	**31**	**50**	**27**	**35**	**62**

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 any impairment is accounted for as an adjustment to the carrying value of the assets within 'Loans and advances to customers'. 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.

Due to the high values of used vehicles in the secondary market, low volumes of returned vehicles and no losses recorded during the year, FCE's remaining provision was less than £100k.

		Company		Group	
		2022 £ mil	2021 £ mil	2022 £ mil	2021 £ mil
	Note				
Beginning of period balance		0	1	0	1
Residual value adjustments charged/(credited) to Income Statement	2	0	(2)	0	(2)
Residual value losses incurred in the period		0	1	0	1
End of period balance		0	0	0	0

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

15 PROPERTY AND EQUIPMENT

	Company				Group			
	Leasehold improve-ments £ mil	Office Equip-ment £ mil	Motor Vehicles £ mil	Total £ mil	Leasehold improve-ments £ mil	Office Equip-ment £ mil	Motor Vehicles £ mil	Total £ mil
Cost								
At 1 January 2021	1	4	1	6	2	5	363	370
Additions	—	—	1	1	—	1	312	313
Disposals	—	(1)	(2)	(3)	(1)	(2)	(443)	(446)
Translation adjustment	—	—	1	1	—	—	(32)	(32)
At December 2021/ 1 January 2022	**1**	**3**	**1**	**5**	**1**	**4**	**200**	**205**
Additions	—	—	—	—	—	1	106	107
Disposals	—	—	—	—	—	—	(211)	(211)
Translation adjustment	—	—	0	—	—	—	6	6
At 31 December 2022	**1**	**3**	**1**	**5**	**1**	**5**	**101**	**107**
Accumulated Depreciation								
At 1 January 2021	1	1	—	2	2	3	49	54
Charge for the year*	—	—	—	—	—	—	131	131
Disposals	—	—	—	—	(1)	(1)	(129)	(131)
Translation adjustment	—	1	—	1	—	—	(11)	(11)
At December 2021/ 1 January 2022	**1**	**2**	**—**	**3**	**1**	**2**	**40**	**43**
Charge for the year	—	—	—	—	—	—	29	29
Disposals	—	—	—	—	—	—	(65)	(65)
Translation adjustment	—	—	—	—	—	—	1	1
At 31 December 2022	**1**	**2**	**—**	**3**	**1**	**2**	**5**	**8**
Net book value at 31 December 2021	**—**	**1**	**1**	**2**	**—**	**2**	**160**	**162**
Net book value at 31 December 2022	**—**	**1**	**1**	**2**	**—**	**3**	**96**	**99**

*Relates to a change in presentation of the loss on disposal of operating lease vehicles of (16m) in Group. This is now shown in *a separate table on page 86.*

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

15 PROPERTY AND EQUIPMENT CONTINUED

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.

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	**2022**	**2021**	**2022**	**2021**
	£ mil	**£ mil**	**£ mil**	**£ mil**
Analysis of property and equipment				
Current	—	—	85	159
Non-current	2	2	14	3
Total	**2**	**2**	**99**	**162**

	Company		Group	
As at 31 December	**2022**	**2021**	**2022**	**2021**
	£ mil	**£ mil**	**£ mil**	**£ mil**
Operating Leases				
Cost	—	—	101	199
Accumulated depreciation	—	—	(5)	(41)
Total	**—**	**—**	**96**	**158**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

15 PROPERTY AND EQUIPMENT CONTINUED

Breakdown of (gain)/loss on disposals is as follows:

Returned Operating lease vehicles are initially revalued and reported as 'vehicles awaiting resale' as per note 11, and subsequently sold through public auctions. The table below provides detailed information on disposal of returned operating lease vehicles during the year.

	Company		Group	
As at 31 December	**2022**	**2021**	**2022**	**2021**
	£ mil	**£ mil**	**£ mil**	**£ mil**
(Gain)/Loss on disposal of operating leases				
Sale Proceeds	—	—	(263)	(408)
Cost of sales	—	—	205	385
(Profit)/Loss on disposal before selling costs	**—**	**—**	**(58)**	**(23)**
Selling costs and other charges	—	—	(3)	11
Residual value guarantee	—	—	31	28
(Gain)/Loss on disposal	**—**	**—**	**(30)**	**16**

The loss of £16m in 2021 was included within the depreciation charge for the year.

'Sale Proceeds' represents proceeds from the sale of returned operating lease vehicles.

'Cost of sales' represents the carrying amount of operating lease vehicles, adjusted to the net realisable amount upon return and any revaluation adjustment on vehicles awaiting resale.

'Selling costs and other charges' includes all costs to sell the vehicle such as refurbishment cost, offset by late charges recovered from late vehicle returns, and any write-offs or liquidations.

'Residual value guarantee' represents the guarantee amount paid to or (received) from Ford on residual value gains/loss in 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.

16 RIGHT OF USE ASSETS AND LEASE COMMITMENTS

Policy

The group leases 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 2022

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	Office Equipment	Total	Land and Buildings	Office Equipment	Total
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Cost						
At 1 January 2021	28,030	250	28,280	36,850	466	37,316
Modification to the original cost	(7)	60	53	(261)	144	(117)
Lease termination	(1,589)	(21)	(1,610)	(9,773)	(70)	(9,843)
New Leases	39	—	39	1,502	—	1,502
Restructuring actions	(1,915)	(90)	(2,005)	—	—	—
Translation Adjustment	(131)	—	(131)	(138)	(2)	(140)
At 31 December 2021 / 1 January 2022	**24,427**	**199**	**24,626**	**28,180**	**538**	**28,718**
Modification to the original cost	1,430	112	1,542	2,432	123	2,555
Lease termination	(117)	(112)	(229)	(1,404)	(178)	(1,582)
Translation Adjustment	110	4	114	248	21	269
Cost at 31 December 2022	**25,850**	**203**	**26,053**	**29,456**	**504**	**29,960**
Accumulated Depreciation						
At 1 January 2021	(7,653)	(203)	(7,856)	(10,484)	(363)	(10,847)
Depreciation during the year	(3,959)	(66)	(4,025)	(7,205)	(141)	(7,346)
Lease Termination	620	51	671	5,594	64	5,658
Restructuring actions	581	41	622	—	—	—
Translation Adjustment	145	9	154	306	17	323
At 31 December 2021 / 1 January 2022	**(10,266)**	**(168)**	**(10,434)**	**(11,789)**	**(423)**	**(12,212)**
Depreciation during the year	(3,768)	(97)	(3,865)	(4,430)	(172)	(4,602)
Lease termination	116	112	228	1,427	171	1,598
Translation Adjustment	(104)	(5)	(109)	(154)	(19)	(173)
At 31 December 2022	**(14,022)**	**(158)**	**(14,180)**	**(14,946)**	**(443)**	**(15,389)**
Net carrying amount at 31 December 2021	14,161	31	14,192	16,391	115	16,506
Net carrying amount at 31 December 2022	**11,828**	**45**	**11,873**	**14,510**	**61**	**14,571**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

16 RIGHT OF USE ASSETS AND LEASE COMMITMENTS CONTINUED

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

	Company		Group	
As at 31 December	**2022 £ 000's**	**2021 £ 000's**	**2022 £ 000's**	**2021 £ 000's**
Within 1 year	3,734	3,829	4,248	4,431
After 1 year and within 2 years	3,713	3,353	4,192	3,809
After 2 year and within 3 years	2,886	3,352	3,365	3,766
After 3 year and within 4 years	1,532	2,525	1,945	2,939
After 4 year and within 5 years	4	1,131	194	1,448
After 5 years	4	2	627	113
Total	**11,873**	**14,192**	**14,571**	**16,506**

The amounts contractually due on lease liabilities as of December 31,2022 were as follows (in thousands):

	Company		Group	
As at 31 December	**2022 £ 000's**	**2021 £ 000's**	**2022 £ 000's**	**2021 £ 000's**
Lease Commitments:				
Within 1 year	4,014	4,137	4,557	4,790
After 1 year and within 2 years	3,995	3,658	4,505	4,161
After 2 year and within 3 years	3,029	3,657	3,539	4,118
After 3 year and within 4 years	1,508	2,690	1,944	3,151
After 4 year and within 5 years	283	1,169	497	1,526
After 5 years	—	—	710	169
Total	***12,829***	***15,311***	***15,752***	***17,915***
Less: Present value discount	(976)	(1,045)	(942)	(1,337)
Total lease liabilities	**11,853**	**14,266**	**14,810**	**16,578**

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

	Company		Group	
As at 31 December	**2022 £ 000's**	**2021 £ 000's**	**2022 £ 000's**	**2021 £ 000's**
Cash paid for amounts included in the measurement of lease liabilities	4,188	4,267	4,647	4,899

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

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	**2022**	**2021**
	£ 000's	**£ 000's**
Depreciation		
Land and buildings	4,430	7,205
Machinery, equipment, and other	172	141
Total depreciation	***4,602***	***7,346***
Other Expenses		
Interest expense	335	413
Variable lease expense	—	—
Sublease income	(234)	(312)
Net lease expense	**4,703**	**7,447**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

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	Externally acquired		Internally generated	Externally acquired	
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
Cost						
At 1 January 2021	53	18	71	53	18	71
Additions	18	—	18	18	—	18
Transfer/Disposals	(2)	(5)	(7)	(2)	(5)	(7)
At 31 December 2021 / 1 January 2022	**69**	**13**	**82**	**69**	**13**	**82**
Additions	14	1	15	14	1	15
Transfer/Disposals	—	—	—	—	—	—
At 31 December 2022	**83**	**14**	**97**	**83**	**14**	**97**
Accumulated amortisation and impairment						
At 1 January 2021	(20)	(18)	(38)	(20)	(18)	(38)
Amortisation charge for the year	(6)	—	(6)	(6)	—	(6)
Transfer/Disposals	(5)	5	—	(5)	5	—
At 31 December 2021 / 1 January 2022	**(31)**	**(13)**	**(44)**	**(31)**	**(13)**	**(44)**
Amortisation charge for the year	(7)	—	(7)	(7)	—	(7)
Transfers/Disposals	—	—	—	—	—	—
At 31 December 2022	**(38)**	**(13)**	**(51)**	**(38)**	**(13)**	**(51)**
Net book value at 31 December 2021	**38**	**—**	**38**	**38**	**—**	**38**
Net book value at 31 December 2022	**45**	**1**	**46**	**45**	**1**	**46**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

18 INCOME TAXES RECEIVABLE AND PAYABLE

	Company		Group	
As at 31 December	**2022 £ mil**	**2021 £ mil**	**2022 £ mil**	**2021 £ mil**
UK taxation	13	—	13	—
Overseas taxation	26	6	27	6
Income taxes receivable	**39**	**6**	**40**	**6**
UK taxation	—	(12)	—	(12)
Overseas taxation	(18)	(6)	(26)	(28)
Income taxes payable	**(18)**	**(18)**	**(26)**	**(40)**
Net income taxes receivable / payable	**21**	**(12)**	**14**	**(34)**
Current	21	(12)	14	(34)
Non-current	—	—	—	—
Total	**21**	**(12)**	**14**	**(34)**

19 DEFERRED TAX ASSETS AND LIABILITIES

	Company		Group	
	2022 £ mil	**2021 £ mil**	**2022 £ mil**	**2021 £ mil**
At 1 January asset	26	45	8	35
Adoption of IFRS 9/Pension OCI	—	—	(1)	—
Income statement (charge)/credit	(7)	(17)	(45)	(26)
Transfers	—	—	4	—
Foreign currency translation adjustment	1	(2)	—	(1)
At 31 December asset / (liability)	**20**	**26**	**(34)**	**8**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

19 DEFERRED TAX ASSETS AND LIABILITIES CONTINUED

As at 31 December	Company 2022 £ mil	Company 2021 £ mil	Group 2022 £ mil	Group 2021 £ mil
Deferred income tax asset				
Accelerated tax depreciation	12	16	12	16
Tax losses	20	20	20	20
Loss reserves and other temporary differences	(4)	(1)	(4)	(1)
Deferred income tax asset	**28**	**35**	**28**	**35**
Deferred income tax liability				
Accelerated tax depreciation	—	—	(32)	(19)
Loss reserves and other temporary differences	(8)	(9)	(30)	(8)
Deferred income tax liability	**(8)**	**(9)**	**(62)**	**(27)**
At 31 December asset / (liability)	**20**	**26**	**(34)**	**8**

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.

	Note	Company 2022 £ mil	Company 2021 £ mil	Group 2022 £ mil	Group 2021 £ mil
Accelerated tax depreciation		(5)	(2)	(17)	(9)
Tax losses		1	—	1	(1)
Loss reserves and other temporary differences		(2)	(15)	(29)	(16)
Income statement (charge) / Credit	**8**	**(6)**	**(17)**	**(45)**	**(26)**

Finance Act 2021 increased the main rate of UK Corporation Tax from 19% to 25%, effective from April 2023. The 25% rate has been reflected in deferred taxes as at 31 December 2022.

Finance Act 2022 reduced the Bank Surcharge rate from 8% to 3% as well as increasing the surcharge allowance from £25m to £100m, both from April 2023.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

20 INVESTMENTS IN OTHER ENTITIES

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

	Company	
As at 31 December	**2022** **£ mil**	**2021** **£ mil**
Net book value at 1 January	1,104	842
Transfer of investments outside of FCE	(60)	—
Additional investment in group undertakings	—	262
Net book value at 31 December	**1,044**	**1,104**
Non-current	1,044	1,104
Net book value at 31 December	**1,044**	**1,104**

'Transfer of investments outside of FCE' relates to the sale of its subsidiaries, Ford Credit (Switzerland) GmBH, Ford Credit s.r.o and FCE Credit Hungária Zrt to Ford Eco GmBH during the year. Refer to Note 36 'Notes to the Statement of Cash Flow' for further details on the cash flows associated with the transfer.

'Additional Investments in Group undertakings' relates to the increased share capital in Ford Credit Italia S.p.A (£241m) and Ford Bank Austria (£21m).

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

20 INVESTMENTS IN OTHER ENTITIES CONTINUED

List of Consolidated Companies

Subsidiary Undertakings*

Entity	Country of Incorporation	Principal Activity	Accounting Reference Date	Ownership
Ford Bank GmbH**	Germany	Bank	31 December	100%
Ford Credit Italia S.p.A	Italy	Finance company	31 December	100%

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 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	Structured entity	31 December	0%
Globaldrive Italy Retail Vfn 2022 S.R.L.	Italy	Structured entity	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%
Globaldrive Auto Receivables 2021-A B.V.	Netherlands	Germany Retail	31 December	0%
Active Wholesale SE's				
Globaldrive Dealer Floorplan Germany 2018 B.V.	Netherlands	Germany Wholesale	31 December	0%
Globaldrive Dealer Floorplan Germany 2018 B.V.	Netherlands	Germany Wholesale	31 December	0%
Inactive Retail SE's (pending liquidation):				
Globaldrive Auto Receivables UK 2019-A plc	England	UK Retail	In the process of being liquidated	
Globaldrive Auto Receivables 2018-A B.V.	Netherlands	Germany Retail	In the process of being liquidated	
Globaldrive (Switzerland) GmbH	Switzerland	Retail	In the process of being liquidated	
Inactive Wholesale SE's (pending liquidation):				
Globaldrive UK Dealer Floorplan Funding I Limited	Jersey	UK Wholesale - Funding	In the process of being liquidated	
Globaldrive UK Dealer Floorplan Receivables Trustee I Ltd	Jersey	UK Wholesale - Receivables Trustee	In the process of being liquidated	

* During the year, FCE transferred the investments in subsidiaries Ford Credit (Switzerland) GmbH, Ford Credit s.r.o and FCE Credit Hungária Zrt to its parent, Ford Eco GmbH.

**Comprises of Ford Bank GmbH and its branch Ford Bank Austria.

***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 2022

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	**2022**		**2021**		**2022**		**2021**	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
	£ mil	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**	**£ mil**
Due to banks and financial institutions	516	515	645	645	2,916	2,908	1,096	1,095
Debt securities in issue	667	668	1,582	1,588	1,150	1,149	2,486	2,490
Due to parent and related undertakings	3,532	3,526	2,927	2,994	3,476	3,479	3,405	3,478
Total financial liabilities	**4,715**	**4,709**	**5,154**	**5,227**	**7,542**	**7,536**	**6,987**	**7,063**
Current	1,560		1,876		2,425		2,617	
Non-current	3,155		3,278		5,117		4,370	
Total financial liabilities	**4,715**		**5,154**		**7,542**		**6,987**	

'Debt' is measured at fair value for the purposes of disclosure, using quoted prices for our 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 categorized within Level 2 of the hierarchy.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

21 FINANCIAL LIABILITIES CONTINUED

Debt securities in issue

	Company		Group	
As at 31 December	**2022 £ mil**	**2021 £ mil**	**2022 £ mil**	**2021 £ mil**
Listed debt:				
Euro Medium Term Notes issued				
Non-hedged items	665	1,576	665	1,576
Asset backed securities	—	—	483	904
Sub-total listed debt:	**665**	**1,576**	**1,148**	**2,480**
Fair value adjustment on hedged notes (a)	2	6	2	6
Total securities issued a/	**667**	**1,582**	**1,150**	**2,486**
Note a/ of which de-designated	2	6	2	6

(a) At December 31,2022 and 2021, the balance includes an unfavourable adjustment related to discontinued hedging relationships of £2 million and £6 million, respectively.

FCE allowed its existing Euro Medium Term Notes (EMTN) programme on the Luxembourg Stock Exchange to expire in September 2019. The Group repaid the equivalent of £0.9 billion (2021: £1.9 billion) of primarily Sterling and Euro denominated EMTN loans that matured during the year.

The remaining movement of the EMTN's in 2022 represents currency revaluation.

FCE launched its new EMTN programme in December 2021. The EMTN programme has an issuance limit of €10 billion and is listed on the Irish Stock Exchange. The EMTN Base Prospectus contains information relating to all notes and is dated 9 December 2021. Although, FCE has not issued any debt under the new programme, future listed notes will be available to view on the Official List of the Irish Stock Exchange and be admitted for trading on the Irish Stock Exchange's regulated market.

The Irish Stock Exchange's website address is provided *on page 139.*

'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 2022

21 FINANCIAL LIABILITIES CONTINUED

Due to parent and related undertakings

	Company		Group	
As at 31 December	**2022 £ mil**	**2021 £ mil**	**2022 £ mil**	**2021 £ mil**
Subordinated loans:				
Loans from Ford ECO	**250**	**248**	373	**364**
Senior debt:				
Loans from Ford ECO	324	390	324	390
Loans from Ford Credit	2,210	2,124	2,565	2,462
Deposits received from related undertakings	16	16	16	16
Sub-total senior debt:	***2,550***	**2,530**	***2,905***	**2,868**
Net cash proceeds from structured financing	**580**	**23**	—	—
Trade and other payables:				
Accounts payable to related undertakings	145	123	188	170
Accrued interest	7	3	10	3
Sub-total trade and other payables	***152***	***126***	***198***	***173***
Total due to parent and related undertakings	**3,532**	**2,927**	**3,476**	**3,405**

'Subordinated Loans' listed above are loans, which satisfy the conditions for eligibility as Tier 2 capital instruments, and are included in the calculation of 'Own Funds'. The rights to payment and interest in respect of all subordinated loans will, in the event of winding up of the Company/Group, be subordinated to the rights of all unsubordinated creditors of the Company/Group with respect to their senior claims. For further details refer to the unaudited 'Pillar 3 Disclosures'.

'Senior debt' comprises various loans with related parties, which include two (2021: two) Euro denominated loans from Ford ECO to FCE, as well as five (2021: five) Euro denominated loans from Ford Credit to FCE, one (2021: one) Swiss Franc denominated loan from Ford Credit to FCE and one (2021: one) 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 note interests in all of its securitisation transactions. For private securitisation programmes, 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 also holds senior interest in some of its public term securitisation structures as eligible collateral to access central bank liquidity facilities. For regulatory reporting, the underlying assets in these transactions are considered unencumbered if they are not being used as security for central bank funding.

The Company retains credit risk in securitisation transactions through its junior retained interests which provide various forms of credit enhancements. These include overcollateralisation, 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, with the exception of the underlying assets in transactions involving central bank liquidity facilities noted above, these assets are also reported as encumbered. Further details on FCE's asset encumbrance can be seen in the unaudited 'Pillar 3 Disclosures'.

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 2022 of £318 million (31 December 2021: £242 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							
	2022				2021			
As at 31 December	Public	Private	Carrying Value	Fair Value	Public	Private	Carrying Value	Fair Value
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
Financial assets	1,871	4,088	5,959	5,877	2,764	2,230	4,994	5,107
Financial liabilities	(483)	(2,623)	(3,106)	(3,096)	(904)	(534)	(1,438)	(1,435)
Retained interest	**1,388**	**1,465**	**2,853**	**2,781**	**1,860**	**1,696**	**3,556**	**3,672**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

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 2022	1,925
Committed capacity matured in 2022	(785)
Committed capacity renewed and added in 2022	1,326
Capacity net increase action	334
Capacity net decrease action	(168)
Exchange differences	96
Balance at 31 December 2022	**2,728**

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 2022 totalled £2.7 billion of committed capacity (2021: £1.9 billion) of which £1.8 billion matures during 2023 and the remaining balance having a maturity date of 2024. At 31 December 2022 £2.5 billion (2021: £0.4 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.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

23 DEPOSITS

	Company		Group	
As at 31 December	**2022**	**2021**	**2022**	**2021**
	£ mil	**£ mil**	**£ mil**	**£ mil**
Customer deposits	4,505	3,150	7,116	4,986
Dealer deposits	15	15	15	15
Total deposits	**4,520**	**3,165**	**7,131**	**5,001**
Current	3,975	2,749	5,794	4,127
Non-current	545	416	1,337	874
Total deposits	**4,520**	**3,165**	**7,131**	**5,001**
Total fair value	**4,515**	**3,164**	**7,126**	**4,999**

'Customer deposits' A range of flexible and fixed term savings products and ISAs (UK and Ford Bank GmbH) are offered. In line with FCE and Ford Bank GmbH funding requirements, retail deposits were grown in a controlled manner to £7.1 billion by the 2022 year end.

'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.

Customer deposits are a funding source for FCE.

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

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

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	**2022**	**2021**	**2022**	**2021**
	£ mil	**£ mil**	**£ mil**	**£ mil**
Other Liabilities and Provisions				
Accrued interest on debt	33	30	37	31
Trade payables	33	36	61	61
Cash Collateral Received	124	13	174	19
Accrued liabilities and deferred income	58	48	101	96
Operating lease subvention	—	—	4	16
Provisions (see table below)	3	3	13	12
Total other liabilities	**251**	**130**	**390**	**235**
Current	251	130	390	235
Non-current	—	—	—	—
Total other liabilities	**251**	**130**	**390**	**235**

'Cash collateral received' relates to variation margin received by FCE from the margining of derivative contracts. This was previously included within Trade Payables.

	Company Restructuring	Group Restructuring
	2022	**2022**
	£ mil	**£ mil**
Provisions Movement		
At 1 January 2022	3	12
Additions	4	8
Used	(4)	(6)
Unused	—	(1)
At 31 December 2022	**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 2022

25 ORDINARY SHARES AND SHARE PREMIUM

	Company and Group			
As at 31 December		**2022**		**2021**
		£ mil		**£ mil**
Allotted, called up and fully paid at 1 January and 31 December				
614,384,050 Ordinary shares of £1 each (2021: 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 £2.4 billion (2021: £3 billion) as described further in the strategic report on page 5 and 9 and in the unaudited 'Pillar 3 Disclosures'.

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

Support agreement

Pursuant to a support agreement between FMCC and FCE dated 20 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 US $500 million.

The 5-year agreement provides for the termination date to be extended automatically on 1 February of each year for an additional one-year period ending on 31 January of the following year. Either party can give 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 2029.

26 DIVIDEND PER SHARE

FCE declared an interim dividend of £600m (2021 £300m:) from available distributable reserves, to its shareholder Ford ECO in Oct 2022. The dividend equated to approximately 97.7 pence per ordinary share.

27 RETIREMENT BENEFIT OBLIGATIONS

Employees in all of FCE's locations except 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 2022. Each plan is administered by trustees and pension boards, which have the responsibility for the investment of plan assets.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

27 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

As at 31 December 2022 there were no material amendments, curtailments or 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.

	2022				2021			
	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	1,105	—	—	1,105	1,195	—	—	1,195
International companies	770	8	—	778	814	29	—	843
Total equity	**1,875**	**8**	**—**	**1,883**	**2,009**	**29**	**—**	**2,038**
Fixed income								
U.S. Government	12	16	—	28	19	4	—	23
Non-U.S. Government	—	4,714	106	4,820	—	7,321	50	7,371
Corporate bonds	—	638	54	692	—	821	28	849
Mortgage/other asset-backed	—	116	5	121	—	130	6	136
Commingled funds	—	49	—	49	—	35	—	35
Derivative financial instruments	—	(30)	61	31	—	10	11	21
Total fixed income	**12**	**5,503**	**226**	**5,741**	**19**	**8,321**	**95**	**8,435**
Alternatives								
Hedge funds (a)	—	—	342	342	—	—	374	374
Private equity (b)	—	—	164	164	—	—	188	188
Real estate (c)	—	—	116	116	—	—	101	101
Total alternatives	**—**	**—**	**622**	**622**	**—**	**—**	**663**	**663**
Cash and cash equivalents (d)	(772)	—	—	(772)	(905)	—	—	(905)
Other (e)	(108)	—	2,113	2,005	(141)	—	2,991	2,850
Total assets at fair value	**1,007**	**5,511**	**2,961**	**9,479**	**982**	**8,350**	**3,749**	**13,081**

(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 and cash held to pay benefits.
(e) Primarily Ford-Werke GmbH ("Ford-Werke") plan assets with insurance contract valued at £2,113 million (2021: £2,991 million) and cash related to net pending security (purchases)/sales and net pending foreign currency purchases/(sales).

27 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

The total obligations for the UK and German plans for 2022 were £11 billion (2021: £16 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.

Principal actuarial assumptions at the reporting date		2022 %	2021 %
Discount rate		4.2	1.5
Future salary increases		3.1	2.9
Future pension increases		2.0	1.9
Future pension increases (discretionary)		NIL	NIL
		Years	Years
The average life expectancy in years of a member retiring at age 65 on the reporting date is as follows	Male	21.4	21.2
	Female	23.8	23.7
The average life expectancy in years of a member retiring at age 65, 20 years after the reporting date is as follows	Male	23.3	23.2
	Female	25.6	25.5

(i) Retirement plan costs

FCE's total retirement plan, including contributions to Ford-sponsored plans, expense incurred for FCE's defined benefit plans and contributions to defined contribution plans was £22 million (2021: £22 million). Contributions are expected to stay at similar levels in 2023.

(ii) Defined benefit plans operated by the Company

FCE operates defined benefit plans in Austria, France, and Spain. The total negative expenses in 2022 was £98 thousand, (2021: actual expense was £233 thousand), and there was a total deficit of obligations to assets of £0.2 million (2021: £1.4 million).

(iii) Defined contributions plans

	Company		Group	
As at 31 December	**2022 £ mil**	**2021 £ mil**	**2022 £ mil**	**2021 £ mil**
Total contributions recognised in year	**1**	**2**	**3**	**3**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

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 2022.

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.

Guarantees

Financial guarantees are initially recognised at fair value and subsequently at the higher of the loss allowance and the initial amount less income recognised where applicable.

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	**2022 £ mil**	**2021 £ mil**	**2022 £ mil**	**2021 £ mil**
Guarantees provided on behalf of Ford:				
Spanish Ministry of Industry and regional authorities	1	1	1	1
Customs authorities, revenue commissioners and agencies	13	13	13	13
Other guarantees	—	—	—	—
Total guarantees provided on behalf of Ford	**14**	**14**	**14**	**14**
FBG Deposit Protection Fund	728	548	—	—
Other guarantees provided to third parties	—	1	—	—
Total guarantees	**742**	**563**	**14**	**14**

'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 España 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

'FBG Deposit Protection Fund' relates to guarantees to Ford Bank Germany (FBG)'s contribution to the Deposit Protection Fund (DPF) to support FBG's deposit taking programme. The DPF protects depositors for amounts they deposit above €100,000. FCE would reimburse the DPF in the event of DPF compensating FBG's depositors.

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 2022, these non-cancellable offers totalled £401 million (2021 totalled £495 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. FCE could incur a credit loss if the counterparty to an interest rate or foreign currency derivative with FCE defaults. This is known as counterparty credit risk and, in the case of interest rate derivatives, is mitigated by the cash collateral that FCE exchanges with most of its counterparties under margin arrangements.

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

When originating retail and finance leases, FCE uses a proprietary scoring system that measures the credit quality of the proposed loan using several factors such as credit bureau information, consumer credit risk scores, customer characteristics, and contract characteristics.

As explained in Note 13 'Allowance for Expected Credit Losses', under IFRS9 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 (Stage1); the sum of the expected credit losses for all forward periods represents the lifetime expected loss (Stage 2 and 3).

Wholesale

FCE uses a proprietary scoring model to assess the credit quality of dealers. The model considers financial information, including profitability, capital and liquidity at a point in time, as well as other performance factors. This is supplemented by judgmental 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 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 Dealer Risk Rating (DRR) based on the outcome of the scoring model. 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 metrics
- Group II - fair to favourable metrics
- Group III - marginal to weak metrics
- Group IV - poor metrics including dealers classified as uncollectible

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

29 CREDIT RISK CONTINUED

The credit quality analysis of our dealer financing receivables for the year ended December 31,2022 and 2021 were as follows:

As at 31 December

	2022 Total £ mil	2021 Total £ mil
Group I	3,424	1,399
Group II	1,684	1,480
Group III	134	326
Group IV	25	31
Total Dealer Financing Receivables	**5,267**	**3,236**

Performing and Non-performing Exposures

Performing exposures are receivables which are not considered to be non-performing and these are reported under IFRS9 Stage 1 and Stage 2 for credit loss provisioning.

Non-performing exposures are reported under IFRS9 stage 3 and 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

The ageing analysis of FCE's retail, finance leases and wholesale receivables for the year ended 31 December 2022 and 2021 were as follows:

	Company		Group	
As at 31 December	**2022 £ mil**	**2021 £ mil**	**2022 £ mil**	**2021 £ mil**
Performing Exposures				
Less than or equal to 30 days past due	7,327	6,154	14,231	12,485
31-90 days past due	7	11	18	23
Total Performing Exposures	**7,334**	**6,165**	**14,249**	**12,508**
Non-performing Exposures				
Less than or equal to 90 days past due	15	20	30	79
91-180 days past due	1	3	3	5
Greater than 180 days past due	4	6	39	43
Total Non-performing Exposures	**20**	**29**	**72**	**127**
Total Exposures	**7,354**	**6,194**	**14,321**	**12,635**
Non-performing Loan Ratio a)	*0.3%*	*0.5%*	*0.5%*	*1.0%*

a) Non-performing Loan Ratio = Total Non-performing Exposures / Total Exposures

29 CREDIT RISK CONTINUED

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 2022 is £14,297 million (2021: £12,602 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 2022, the value of collateral is £5,731 million (2021: £5,627 million) in relation to retail and finance lease and £5,138 million for wholesale (2021: £3,089 million).

The value of the FCE's loans and advances considered to be credit impaired at the reporting date is £72 million (2021: £127 million) and the amount of collateral held on credit impaired receivables at the 31 December 2022 is £55 million (2021: £84 million).

Forbearance and Loan Modifications

Forbearance measures consist of concessions towards a borrower (customer or dealer) who is facing or is about to face difficulties in meeting their financial commitments. 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. Days past due for forborne retail and finance lease customers are determined based on the revised concession terms.

The total net modification gain (or loss) for the years ended December 31,2022, and 2021 were as follows:

As at 31 December	2022 £ mil	2021 £ mil
Retail		
Performing Exposures	28	37
Non-performing Exposures	23	57
Total Retail Forborne Exposures	**51**	**94**
Wholesale		
Performing Exposures	30	34
Non-performing Exposures	32	52
Total Wholesale Forborne Exposures	**62**	**86**
Total Forborne Exposures	**113**	**180**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

29 CREDIT RISK CONTINUED

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 centrally-cleared derivative instruments in asset positions at 31 December 2022 is £83 million (2021: £38 million), representing the maximum potential loss at that date if all counterparties failed to perform as contracted. 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 table considers FCE's existing retail and finance lease portfolio, as at 31 December 2022, for which FCE holds the primary residual value risk. These values 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	2022	2021
	£ mil	£ mil	£ mil	£ mil
Year in which the residual value will be recovered				
Within 1 year	477	77	554	703
Between 1-2 years	784	—	784	733
Between 2-5 years	1,086	—	1,086	961
More than 5 years	—	—	—	—
Total residual values	**2,347**	**77**	**2,424**	**2,397**

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 0.01% (2021: 0.26%) 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 German operating lease portfolio 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 2022, due to mature in 2023, 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 11.5% and have an adverse profit impact to the Company of approximately £1.3 million (2021: £1.3 million under the equivalent stressed scenario). In the event of a 5% reduction, this would increase the forecast return rate to 14.4% and have an incremental adverse profit impact of £6.7 million (total £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 2024, would have an additional estimated impact of £7.3 million.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

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-centrally 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

32a) CURRENCY RISK

In addition to the UK the Company operates branches in 8 other European countries and has subsidiaries in Germany and Italy and 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.

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 within Other Comprehensive Income.

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. The reduction of the Group non-euro net assets between 2021 and 2022 is primarily due to FCE's sale of its subsidiaries in Switzerland, Hungary and the Czech Republic in 2022.

	Company		**Group**	
As at 31 December	**2022**	**2021**	**2022**	**2021**
	£ mil	**£ mil**	**£ mil**	**£ mil**
Net assets of foreign operations				
Euro	332	417	1,550	1,539
Other non-Euro currencies	4	4	4	97

	Company		**Group**	
As at 31 December	**2022**	**2021 (Restated)***	**2022**	**2021**
	£ mil	**£ mil**	**£ mil**	**£ mil**
Foreign currency translation reserve				
Euro	358	339	378	291
Other non-Euro currencies	32	32	45	54
Total	**390**	**371**	**423**	**345**

*Upon review of the 2021 Company disclosure regarding the Euro denominated Foreign Currency translation reserve, it was noted that the amount should be corrected to £339m. This change has been made in the comparative information in the table above. There was no impact on Profit, total assets or total equity due to this correction.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

32b) 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 2022 and 2021 is detailed below. These figures do not include gains or losses from fair value adjustments to derivatives.

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	
	2022	**2021**
	£ mil	**£ mil**
Net interest income impact of 100 basis point rate change		
Euro	12	11
Sterling	10	10
Other	—	1
Increase	**22**	**22**
Euro	(12)	(11)
Sterling	(10)	(10)
Other	—	(1)
Decrease	**(22)**	**(22)**

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 17.

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.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

33 LIQUIDITY RISK CONTINUED

Group **As at 31 December 2022**		**0-3 Months £ mil**	**4-12 Months £ mil**	**1-5 Years £ mil**	**5+ Years £ mil**	**Total £ mil**
Assets	**Note**					
Cash and cash equivalents	A	2,536	—	—	—	2,536
Derivative financial instruments	E	43	153	110	—	306
- Retail/Lease		825	2,590	6,304	3	9,722
- Wholesale		616	4,761	—	—	5,377
Loans and advances to customers	B	1,441	7,351	6,304	3	15,099
Operating leases	B	36	49	10	—	95
Other assets	D	301	18	—	104	423
Total asset inflows		**4,357**	**7,571**	**6,424**	**107**	**18,459**
Liabilities						
Financial Liabilities	C	1,085	2,201	4,401	373	8,060
Deposits	C	4,667	1,387	1,169	—	7,223
Derivative financial instruments	E	18	61	51	—	130
Other liabilities	D	240	5	16	—	261
Total liability outflows		**6,010**	**3,654**	**5,637**	**373**	**15,674**
Net liquidity gap excluding unrecognised items		**(1,653)**	**3,917**	**787**	**(266)**	**2,785**
Cumulative net liquidity gap excluding unrecognised items		**(1,653)**	**2,264**	**3,051**	**2,785**	

Group **As at 31 December 2021**		**0-3 Months £ mil**	**4-12 Months £ mil**	**1-5 Years £ mil**	**5+ Years £ mil**	**Total £ mil**
Assets	**Note**					
Cash and cash equivalents	A	1,822	—	—	—	1,822
Derivative financial instruments	E	5	28	33	—	66
- Retail/Lease		883	2,762	6,302	3	9,950
- Wholesale		480	2,800	—	—	3,280
Loans and advances to customers	B	1,363	5,562	6,302	3	13,230
Operating leases	B	76	83	—	—	159
Other assets	D	76	25	37	55	193
Total asset inflows		**3,342**	**5,698**	**6,372**	**58**	**15,470**
Liabilities						
Financial Liabilities	C	1,629	1,017	4,239	364	7,249
Deposits	C	3,656	648	723	—	5,027
Derivative financial instruments	E	3	8	5	—	16
Other liabilities	D	94	14	12	—	120
Total liability outflows		**5,382**	**1,687**	**4,979**	**364**	**12,412**
Net liquidity gap excluding unrecognised items		**(2,040)**	**4,011**	**1,393**	**(306)**	**3,058**
Cumulative net liquidity gap excluding unrecognised items		**(2,040)**	**1,971**	**3,364**	**3,058**	

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

33 LIQUIDITY RISK CONTINUED

Company **As at 31 December 2022**		**0-3 Months £ mil**	**4-12 Months £ mil**	**1-5 Years £ mil**	**5+ Years £ mil**	**Total £ mil**
Assets	**Note**					
Cash and cash equivalents	A	1,346	—	—	—	1,346
Derivative financial instruments	E	19	66	49	—	134
- Retail/Lease		334	1,113	2,870	0	4,317
- Wholesale		542	2,871	—	—	3,413
Loans and advances to customers	B	876	3,984	2,870	0	7,730
Operating leases	B	—	—	—	—	—
Other assets	D	274	686	829	69	1,858
Total asset inflows		**2,515**	**4,736**	**3,748**	**69**	**11,068**
Liabilities						
Financial Liabilities	C	764	1,297	2,821	250	5,132
Deposits	C	3,019	1,175	415	—	4,609
Derivative financial instruments	E	10	26	24	—	60
Other liabilities	D	158	1	16	—	175
Total liability outflows		**3,951**	**2,499**	**3,276**	**250**	**9,976**
Net liquidity gap excluding unrecognised items		**(1,436)**	**2,237**	**472**	**(181)**	**1,092**
Cumulative net liquidity gap excluding unrecognised items		**(1,436)**	**801**	**1,273**	**1,092**	

Company **As at 31 December 2021**		**0-3 Months £ mil**	**4-12 Months £ mil**	**1-5 Years £ mil**	**5+ Years £ mil**	**Total £ mil**
Assets	**Note**					
Cash and cash equivalents	A	776	—	—	—	776
Derivative financial instruments	E	5	25	21	—	51
- Retail/Lease		375	1,270	2,766	0	4,411
- Wholesale		303	1,748	0	—	2,051
Loans and advances to customers	B	678	3,018	2,766	0	6,462
Operating leases	B	—	—	—	—	—
Other assets	D	521	643	1,683	35	2,882
Total asset inflows		**1,980**	**3,686**	**4,470**	**35**	**10,171**
Liabilities						
Financial Liabilities	C	1,336	614	3,195	248	5,393
Deposits	C	2,318	559	313	—	3,190
Derivative financial instruments	E	3	8	3	—	14
Other liabilities	D	52	3	12	—	67
Total liability outflows		**3,709**	**1,184**	**3,523**	**248**	**8,664**
Net liquidity gap excluding unrecognised items		**(1,729)**	**2,502**	**947**	**(213)**	**1,507**
Cumulative net liquidity gap excluding unrecognised items		**(1,729)**	**773**	**1,720**	**1,507**	

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

33 LIQUIDITY RISK CONTINUED

Available for use credit facilities

Unsecured credit facilities granted by financial institutions to the Group and Company
At 31 December 2022 the Group had £871 million (2021: £965 million) contractually committed unsecured credit facilities with financial institutions, of which £300 million (2021: £525 million) was utilised. The remaining undrawn amounts totalling £571 million (2021: £439 million) are available for use. The Company had £685 million (2021: £690 million) contractually committed unsecured credit facilities with financial institutions, of which £300 million (2021: £500 million) was utilised leaving £385m available for use (2021: £190 million).

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 2022, Group had £612 million (2021: £1,072 million) of private revolving committed securitisation capacity was available. For Company £43 million (2021: £608 million) of private revolving committed securitisation capacity was available.

Central Bank Funding to the Group and Company
FCE holds senior interest in some of its public term securitisation structure as eligible collateral to access Central Bank Liquidity. As at 31 December 2022 the Group recognised £142 million (2021: £175 million) of available liquidity from the ECB and £8 million available liquidity (2021: £174 million) from the BoE. The Company only recognises BoE available liquidity. In addition the company holds additional eligible collateral for participates in the BoE Discount Window Facility (DWF) scheme which can act as an additional source of liquidity.

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, £2,150 million (2021: £1,499). The Company holds deposits eligible under the Regulatory definition of High Quality Liquid Assets of £1,255 million (2021: 746 million) and Ford Bank GmbH holds £894 million (2021: £753 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 £1,642 million (2021: £2,728 million) notes receivable from affiliates. These eliminate in Group view.

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.

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 2022. 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 Ford ECO, FMCC 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 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 34 '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.
- Foreign currency exchange derivatives transacted with Ford Global Trading (FGT).
- CCR exposures to Corporates relates to foreign currency exchange derivatives transacted with Ford Global Trading (FGT).

Certain amounts in relation to UK taxes, including interest where applicable, are payable to Ford Motor Company UK under group relief arrangements. Amounts payable are recorded within 'Accounts payable to related undertakings'. For further information, see Note 21 'Financial Liabilities' and Note 28 'Contingent Liabilities, Financial Guarantees and Commitments'.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

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	
	2022 **£ mil**	**2021** **£ mil**	**2022** **£ mil**	**2021** **£ mil**	**2022** **£ mil**	**2021** **£ mil**
Accounts receivable						
Accounts receivable at 1 January	24	28	1	1	7	185
Accounts receivable at 31 December	**26**	**24**	**1**	**1**	**31**	**7**
Loans						
Loans outstanding at 1 January	2,728	2,513	—	—	423	425
Loans outstanding at 31 December	**1,642**	**2,728**	**—**	**—**	**738**	**423**
Investment in Group undertakings (Note 20)						
Cost at 1 January	1,104	842	—	—	—	—
Cost at 31 December	**1,044**	**1,104**	**—**	**—**	**—**	**—**
Accounts payable and accrued interest						
Accounts payable at 1 January	12	18	6	7	108	87
Accounts payable at 31 December	**13**	**12**	**12**	**6**	**127**	**108**
Senior debt and subordinated loans						
Senior debt and subordinated loans at 1 January	—	—	2,762	5,040	16	16
Senior debt and subordinated loans at 31 December	**—**	**—**	**2,784**	**2,762**	**16**	**16**
Net cash proceeds from the sale of receivables						
Net cash proceeds from the sale of receivables at 1 January	23	529	—	—	—	—
Net cash proceeds from the sale of receivables at 31 December	**580**	**23**	**—**	**—**	**—**	**—**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

34 RELATED PARTY TRANSACTIONS CONTINUED

Company	Subsidiaries of the Company		Parent undertakings		Entities under common control	
	2022 £ mil	2021 £ mil	2022 £ mil	2021 £ mil	2022 £ mil	2021 £ mil
Revenue						
Interest supplements earned on loans and advances	—	—	—	—	233	228
Interest income related parties	30	35	—	—	3	3
Supplements relating to operating leases	—	—	—	—	—	—
Expense						
Interest expense	—	—	60	63	—	—
Service fees paid/(received) (Footnote 1)	(28)	(25)	23	16	3	5
Guarantees						
Guarantees provided (Note 28)	—	—	—	—	14	14
Dividends received	**89**	**8**	—	—	—	—
Derivatives						
Derivatives year end positive fair value	—	—	—	—	2	—
Derivatives year end negative fair value	—	—	—	—	7	1

Group	Parent undertakings		Entities under common control	
	2022 £ mil	2021 £ mil	2022 £ mil	2021 £ mil
Accounts receivable				
Accounts receivable at 1 January	1	1	20	303
Accounts receivable at 31 December	**1**	**1**	**105**	**20**
Loans receivable				
Loans receivable at 1 January	—	—	423	425
Loans receivable at 31 December	**—**	**—**	**738**	**423**
Accounts payable and accrued interest				
Accounts payable at 1 January	7	13	166	122
Accounts payable at 31 December	**15**	**7**	**183**	**166**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

34 RELATED PARTY TRANSACTIONS CONTINUED

Group	Parent undertakings		Entities under common control	
	2022 £ mil	2021 £ mil	2022 £ mil	2021 £ mil
Senior debt and subordinated loans				
Senior debt and subordinated loans at 1 January	3,216	5,703	16	16
Senior debt and subordinated loans at 31 December	**3,262**	**3,216**	**16**	**16**
Revenue				
Interest supplements earned on loans and advances	—	—	361	344
Interest income related parties	—	—	4	3
Supplements relating to operating leases	—	—	23	139
Expense				
Interest expense	73	73	—	—
Service fees paid (received) (Footnote 1)	23	16	5	6
Guarantees				
Guarantees provided (Note 28)	—	—	14	14
Derivatives				
Derivatives year end positive fair value	—	—	2	—
Derivatives year end negative fair value	—	—	7	1

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) **Repayments** include both repayments and the effect of exchange rate changes during the year.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

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 central allocations. 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 2022 $ mil	**Germany 2022 $ mil**	**Italy 2022 $ mil**	**Spain 2022 $ mil**	**France 2022 $ mil**	**Other 2022 $ mil**	**Total 2022 $ mil**
Market income	295	212	143	37	57	33	**777**
Borrowing costs	(98)	(26)	(42)	(10)	(13)	(6)	**(195)**
Operating expenses	(83)	(116)	(49)	(18)	(20)	(40)	**(326)**
Expected credit losses	9	4	—	(1)	(4)	1	**9**
All other	(1)	38	—	—	1	—	**38**
Profit before tax (PBT)	122	112	52	8	21	(12)	**303**
Net receivables	6,328	5,246	3,411	883	1,282	595	**17,745**

	UK 2021 $ mil	**Germany 2021 $ mil**	**Italy 2021 $ mil**	**Spain 2021 $ mil**	**France 2021 $ mil**	**Other 2021 $ mil**	**Total 2021 $ mil**
Market income	290	279	154	39	54	49	**865**
Borrowing costs	(104)	(55)	(38)	(14)	(17)	(30)	**(258)**
Operating expenses	(92)	(134)	(59)	(20)	(23)	(19)	**(347)**
Expected credit losses	4	6	(1)	(3)	(1)	3	**8**
All other	3	(23)	—	—	—	—	**(20)**
Profit before tax (PBT)	**101**	**73**	**56**	**2**	**13**	**3**	**248**
Net receivables	6,077	5,448	3,269	825	1,139	885	**17,643**

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 95% of external revenues, with all other markets and operations combined under 'Other' as detailed below.

'Other' represents operations not considered as a major geographical market and individually contributing less than 10% of external revenue. It includes Central, WWTF, FCE's branches in Austria, Ireland, Poland and Portugal, and affiliates in Czech Republic, Hungary and Switzerland. (For the period during which they were part of the FCE group).

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

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 Principles (GAAP) excluding fair value adjustments to financial instruments and foreign exchange adjustments.

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 securitised).. 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' are reported under USGAAP, based on lifetime current expected credit loss (CECL) 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 before tax (PBT)' is reported under US GAAP 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 2022

35 SEGMENT REPORTING CONTINUED

35b) IFRS BASIS

		UK	Germany	Italy	Spain	France	Other	Total
		2022	2022	2022	2022	2022	2022	2022
		£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
INCOME STATEMENT	**Note**							
Retail revenue		144	110	96	18	17	4	**389**
Wholesale revenue		62	46	15	9	19	24	**175**
Other income		1	4	—	0	—	26	**31**
Fee and commission income	3	32	6	6	1	16	1	**62**
Income from operating leases	4	—	35	—	—	—	—	**36**
Total external revenue		239	201	117	28	52	55	**693**
Inter-segment revenue		0	0	—	0	—	0	**0**
Total Revenue		**239**	**201**	**117**	**28**	**52**	**55**	**693**
Depreciation of property and equipment	15/16	—	1	0	—	—	(5)	**(4)**
Amortisation of other intangibles	17	—	—	—	—	—	(7)	**(7)**
Profit before tax		137	130	45	5	19	81	**417**
ASSETS								
Net loans and advances to customers	12	5,068	4,078	2,812	730	1,043	566	**14,297**
Property and equipment	15/16	1	98	2	1	—	12	**114**
Total assets		**5,737**	**6,093**	**2,928**	**827**	**1,077**	**1,141**	**17,803**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

35 SEGMENT REPORTING CONTINUED

35b) IFRS BASIS

		UK	Germany	Italy	Spain	France	Other	Total
		2021	2021	2021	2021	2021	2021	2021
		£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
INCOME STATEMENT	**Note**							
Retail revenue		152	122	92	18	15	16	**415**
Wholesale revenue		42	34	14	9	15	22	**136**
Other income		1	2	—	0	—	(1)	**2**
Fee and commission income	3	17	11	6	2	16	1	**53**
Income from operating leases	4	—	163	—	—	—	—	**163**
Total external revenue		212	332	112	29	46	38	**769**
Inter-segment revenue		0	0	—	0	—	0	**0**
Total Revenue		**212**	**332**	**112**	**29**	**46**	**38**	**769**
Depreciation of property and equipment	15/16	—	(149)	0	(1)	—	(5)	**(155)**
Amortisation of other intangibles	17	—	—	—	—	—	(6)	**(6)**
Profit before tax		122	66	42	4	10	(6)	**238**
ASSETS								
Net loans and advances to customers	12	4,337	3,735	2,408	608	824	690	**12,602**
Property and equipment	15/16	—	162	—	—	—	17	**179**
Total assets		**4,767**	**5,333**	**2,478**	**695**	**845**	**947**	**15,065**

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. 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 utilizes 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.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

35 SEGMENT REPORTING CONTINUED

35c) RECONCILIATION BETWEEN PERFORMANCE MEASUREMENT AND IFRS FIGURES

		Market Income	Borrowing Costs	Operating Expenses	Expected Credit Losses	PBT	Net Receivables
		2022	2022	2022	2022	2022	2022
Performance measurement figures		mil	mil	mil	mil	mil	mil
Reportable segments	$	744	(189)	(286)	8	315	17,150
Central operations/other	$	33	(6)	(40)	1	(12)	595
Total	$	**777**	**(195)**	**(326)**	**9**	**303**	**17,745**
Converted to GBP	£	633	(160)	(266)	8	248	14,752
Presentational differences							
Operating leases	£	28	—	—	—	—	(95)
Unearned interest supplements	£	—	—	—	—	—	(336)
Provision for incurred losses	£	—	—	—	—	—	(24)
IFRS Profit on disposal of investment	£	18	—	—	—	18	—
Fees and commission expense	£	6	—	2	—	2	—
Residual gains/losses/reserve	£	—	—	—	—	—	—
Other	£	7	(10)	9	(4)	(12)	0
Adjustments	£						
Fair value adjustments	£	—	—	—	—	133	—
Gain / (Loss) Foreign Exchange	£	—	—	—	—	28	—
Other performance adjustments	£	—	—	—	—	161	—
Total reconciliation to IFRS	£	**692**	**(170)**	**(255)**	**4**	**417**	**14,297**

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

35 SEGMENT REPORTING CONTINUED

		Market Income	Borrowing Costs	Operating Expenses	Expected Credit Losses	PBT	Net Receivables
		2021	2021	2021	2021	2021	2021
Performance measurement figures		Mil	mil	mil	mil	mil	Mil
Reportable segments	$	816	(228)	(328)	5	245	16,758
Central operations / other	$	49	(30)	(19)	3	3	885
Total	**$**	**865**	**(258)**	**(347)**	**8**	**248**	**17,643**
Converted to GBP	£	628	(187)	(252)	6	180	13,088
Presentational differences							
Operating leases	£	130	—	—	—	—	(158)
Unearned interest supplements	£	—	—	—	—	—	(294)
Provision for incurred losses	£	—	—	—	—	—	(33)
Fees and commission expense	£	8	—	4	—	(1)	—
Residual gains/losses/reserve	£	—	—	—	—	—	—
Other	£	3	6	8	(1)	0	(1)
Adjustments	£	—	—	—	—	—	—
Risk based equity adjustment	£	—	20	—	—	20	—
Other performance adjustments	£	—	(1)	—	—	39	—
Total reconciliation to IFRS	**£**	**769**	**(162)**	**(240)**	**5**	**238**	**12,602**

35c) RECONCILIATION BETWEEN PERFORMANCE MEASUREMENT AND IFRS FIGURES CONTINUED

This section commences with the performance measurement figures for FCE's Reportable Segments plus '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

'Market Income' represents total revenue including interest income, fee and commission income, and income from operating leases.

'Net receivables' *represent loans and advances to customers.*

'Borrowing costs' represents interest expense under IFRS.

'Expected credit losses represent expected credit loss (ECL) on the finance receivables.

'Presentational differences' represent the differences in reporting within the IFRS financial statements versus the performance measurement view.

'Adjustments' 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 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.

36 NOTES TO THE STATEMENT OF CASH FLOWS

	Company		Group	
	2022 £ mil	2021 £ mil	2022 £ mil	2021 £ mil
Cash flows from operating activities				
Profit before tax	308	136	417	238
Adjustments for:				
Depreciation expense on property and equipment	—	1	1	1
Depreciation expense on right-of-use assets	4	4	5	8
Depreciation on operating lease vehicles	—	—	28	130
Disposal of operating lease vehicles	—	—	(30)	16
Effects of foreign currency translation	(28)	17	(28)	18
Profit on sale of subsidiaries	(36)	—	(18)	—
Gross impaired losses on loans and advances	6	15	27	27
Amortisation of other intangibles	7	6	7	6
Fair value adjustments to financial instruments	(43)	(25)	(128)	(45)
Interest expense	135	137	170	162
Interest income	(326)	(339)	(576)	(552)
Other operating income	(90)	(8)	(36)	(164)
Other non-cash movements	—	(3)	—	(3)
Changes in operating assets and liabilities:				
Net increase/(decrease) in accrued liabilities and deferred income	10	(62)	3	25
Net (increase)/decrease in deferred charges and prepaid expenses	40	(70)	38	(35)
Net (increase)/decrease in finance receivables	(1,093)	1,556	(1,605)	2,649
Purchase of vehicles for operating leases	—	—	(109)	(284)
Net proceeds/(losses) from sale of operating lease vehicles	—	—	179	268
Net (increase)/decrease in vehicles awaiting resale	(14)	32	41	110
Net (increase)/decrease in accounts receivables	15	(39)	7	(31)
Net increase/(decrease) in accounts payables	103	12	147	(2)
Net (increase)/decrease in accounts receivables from related undertakings	—	(1)	—	6
Net increase/(decrease) in accounts payables to related undertakings	17	22	29	26
Cash generated/(used) in operating activities	**(985)**	**1,391**	**(1,431)**	**2,574**

* Restricted cash was previously classified within "Financing Activities", however, after further review, has been reclassified to "Investing Activities". Derivative financial instruments were previously classified as "Financing Activities", however, after further review, they have been reclassified to "Investing Activities". There was no impact on profit, total assets or total equity due to this correction.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

36 NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED

	Company		Group	
	2022 £ mil	2021 £ mil	2022 £ mil	2021 £ mil
At beginning of period:				
Cash and cash equivalents	776	1,143	1,822	2,048
Balance at 1 January 2022 and 2021	**776**	**1,143**	**1,822**	**2,048**
At end of period:				
Cash and cash equivalents	1,346	776	2,536	1,822
Balance at 31 December 2022 and 2021	**1,346**	**776**	**2,536**	**1,822**
Net (decrease)/increase in cash and cash equivalents				
Cash and cash equivalents at beginning of period	776	1,143	1,822	2,048
Cash and cash equivalents at end of period	1,346	776	2,536	1,822
Net increase / (decrease) in cash and cash equivalents	**570**	**(367)**	**714**	**(226)**

Reconciliation of Liabilities Arising from Financing Activities

Company **For the year ended 31 December**	**2021**	**Cash flow**	**Non-Cash Changes**				**2022**
			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	1,727	(877)	44	—	—	—	894
Funds provided by parent and related undertakings	2,927	519	146	—	—	(60)	3,532
Short-term borrowings	500	(222)	10	—	—	—	288
Deposits	3,165	1,355	—	—	—	—	4,520
Total liabilities from financing activities	**8,319**	**775**	**200**	**—**	**—**	**(60)**	**9,234**

Group **For the year ended 31 December**	**2021**	**Cash flow**	**Non-Cash Changes**				**2022**
			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	3,061	621	113	—	—	(21)	3,774
Funds provided by parent and related undertakings	3,405	1	174	—	—	(104)	3,476
Short-term borrowings	521	(168)	5	—	—	(65)	293
Deposits	5,001	2,005	125	—	—	—	7,131
Total liabilities from financing activities	**11,988**	**2,459**	**417**	**—**	**—**	**(190)**	**14,674**

36 NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED

Change in ownership – Transfer of Subsidiaries

	Group
	2022
For the year ended 31 December	**£ mil**
Total consideration received	95
Cash portion of the consideration	10
Cash and cash equivalents at loss of control	23
Non-cash assets and liabilities at loss of control:	
Assets	311
Liabilities	(239)
Non-cash assets and liabilities at loss of control, by each major category:	
Assets:	
Derivative financial instruments	1
Income taxes receivable	1
Loans and advances to customers	305
Other assets	3
Property and equipment	1
Liabilities:	
Deferred tax liabilities	(4)
Financial liabilities	(228)
Other liabilities and provisions	(7)

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

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.

Country of registration: The Company is a public limited company incorporated and registered in England and Wales.

Registered office: Central Office – Arterial Road, Laindon , Essex SS15 6EE. Registered in England and Wales no 00772784.

The Company has subsidiaries in Germany and Italy (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. Also, FCE provides savings products to approximately 166,000 savings customers in the UK and Germany.

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 Ford ECO. Ford ECO does not produce consolidated accounts, being wholly owned by, and consolidated into the accounts of FMCC. 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 FMCC are all incorporated in the United States of America. Ford ECO is incorporated in Switzerland.

Copies of the consolidated accounts for FMCC and Ford may be obtained from Ford Motor Company (US), One American Road, Dearborn, Michigan 48126, United States of America.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2022

38 COUNTRY-BY-COUNTRY

The following table is disclosed according to the Capital Requirements (Country-by-Country) Reporting Regulations 2013 (Statutory Instrument 2013 No. 3118). The regulation requires disclosure of Public Subsidies received (2022: nil).

For prior year comparators please see page 128 of FCE's 2021 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 (£ mils)
FCE Bank plc Austria	Bank	-	2	1	0.3
FCE Bank plc France	Bank	58	36	19	4.7
FCE Bank plc Germany	Bank	-	0	0	9.6
FCE Bank plc Ireland	Bank	3	1	0	0.1
FCE Bank plc Italy	Bank	—	0	0	—
FCE Bank plc Portugal	Bank	6	1	0	—
FCE Bank plc Spain	Bank	69	21	5	0.6
FCE Bank plc UK	Bank	769	300	282	42.3
FCE Bank SA Oddzial w Polsce	Bank	9	0	0	—
Ford Bank GmbH	Bank	321	171	88	27.1
Ford Bank GmbH Austria Branch	Bank	—	3	—	0.1
Ford Credit Italia Spa	Finance company	72	81	40	21.2

(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 39 'Events After The Reporting Period'.

39 EVENTS AFTER THE REPORTING PERIOD

There are no subsequent events recognised during the period.

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, 1 rue du 1er Mai – CS 90209 - 92 752 Nanterre, France
GERMANY	Ford Bank Niederlassung der FCE Bank plc, Henry-Ford-Str. 1, 50735 Köln, Germany
IRELAND	FCE Bank plc, Elm Court, Boreenmanna Road, Cork 999937, Ireland
ITALY	FCE Bank plc, Via del Serafico 89 palazzina D, II piano (second floor) 00142 Roma
POLAND	FCE Bank SA Oddział w Polsce, Marynarska Business Park, Tasmowa 7, 02-677 Warsaw, Poland
PORTUGAL	FCE Bank plc, Estrada Nacional 10, Km 131.200 - Parque Tejo, concelho de Vila Franca de Xira, União de Freguesias de Póvoa de Santa Iria e Forte da Casa, Portugal
SPAIN	FCE Bank plc Sucursal en España, Calle Caléndula, 13, 28109 Alcobendas, Madrid, Spain
The Group: FCE's European subsidiaries	
GERMANY	Ford Bank GmbH (Registered at District Court Cologne HRB 91249), Henry-Ford-Str. 1, 50735 Köln, Germany
ITALY	Ford Credit Italia SpA, (Company Registration Number 15888421003-REA RM - 1632928), Via del Serafico 89 palazzina D, II piano (second floor) 00142 Roma

Glossary of Defined Terms

FORD CREDIT

Other Information

Glossary of Defined Terms

2022 Annual Report-FCE's consolidated annual financial statements as at and for the year ended 31 December 2022.

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 Total Risk-Weighted 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.

Default-FCE defines a default to have occurred in respect of any borrower (consumer and non-consumer) when the borrower satisfies at least one of the following default criteria in respect of the amount owed by the borrower to FCE:
• Primary Criterion: Unlikely to pay the total amount owed
• Secondary Criterion: More than 90 days past due in respect of a material amount owed, if not already meeting the primary criterion

EMTN-FCE Bank plc (the "Issuer" or "FCE"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Euro Medium Term Notes (the "Notes"). The aggregate principal amount of the Notes outstanding will not at any time exceed €10 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.

FCTA-Foreign Currency Translation Adjustment (FCTA) - Accumulated Other Comprehensive Income account (component of shareholder's equity) where the effect of changes in exchange rates in translating an entity's balance sheet into reporting currency is recorded.

Ford ECO-Ford ECO 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.

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 its 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.

Total risk-weighted exposure amounts-The overall exposure to risk calculated under Pillar 1 of the CRR. For FCE, risk weighted exposures comprise primarily of exposures to credit risk calculated by applying risk weightings to assets under the Standardised approach. Total risk-weighted exposures also include exposures to market risk and operational risk. For more details, please refer to FCE's Pillar 3 Disclosure.

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.

Glossary of Defined Terms

Total Capital Ratio-FCE's Own Funds divided by the end of period Total Risk Weighted 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 • Half Yearly 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 2022 FCE's Pillar 3 disclosures are published as a separate document. For prior years, these disclosures are included in the Annual Report

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