
FCE Bank plc

ANNUAL REPORT

For the year ended 31 December 2017



| FORD CREDIT

2017

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Approval of the 2017 Strategic Report

The Strategic Report for the year ended 31 December 2017 as set out on pages 3 to 17 was approved by the Board on 22 March 2018.

ON BEHALF OF THE BOARD
Charles Bilyeu
Chief Executive Officer
22 March 2018

Company Information

Registered Name FCE Bank plc

Directors: Tom Schneider – Chair
Charles Bilyeu – Chief Executive Officer
John Coffey – Executive Director, Chief Risk Officer
Paul Kiernan – Executive Director, Finance
John Callender – Senior Independent Director
Charlotte Morgan – Non-Executive Director
John Reed – Non-Executive Director
Dale Jones – Non-Executive Director
Suzanna Taverne – Non-Executive Director

Company Secretary: Michael Lavender

Registered Office: Central Office
Eagle Way
Brentwood
Essex CM13 3AR
United Kingdom

Registered Number 00772784

Independent Auditors: PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT
United Kingdom

Website www.fcebank.com

Business Model

Organisational Structure

FCE Bank plc (FCE) is a United Kingdom (UK) registered bank authorised by the Prudential Regulation Authority (PRA). FCE is a direct subsidiary of FCSH GmbH (FCSH), which in turn is a direct subsidiary of Ford Credit International (FCI). FCI is wholly owned by Ford Motor Credit Company LLC (Ford Credit) which, in turn, is wholly owned by Ford Motor Company (Ford).

FCE operates directly in 15 European countries through a branch and subsidiary network providing branded financial services for Ford.

During 2017 FCE transferred to FCSH its 50% less one share interest in Forso Nordic AB (Forso), which provides automotive financial services in Denmark, Finland, Norway and Sweden.

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

FCE provides loans to approximately 1,076,000 retail customers across Europe and provides wholesale financing to around 1,060 dealer groups. FCE's largest markets are the UK and Germany, with the UK market representing 33% of the total FCE portfolio and Germany representing 28% as shown in the chart on page 7.

Customers and Products

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

- A competitive funding structure
- A cost effective and efficient operating structure.
- Strong risk management

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

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

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

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

- Lending to retail customers to purchase or lease vehicles
- Access to insurance products to protect customers
- Finance products for fleet or business customers

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

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

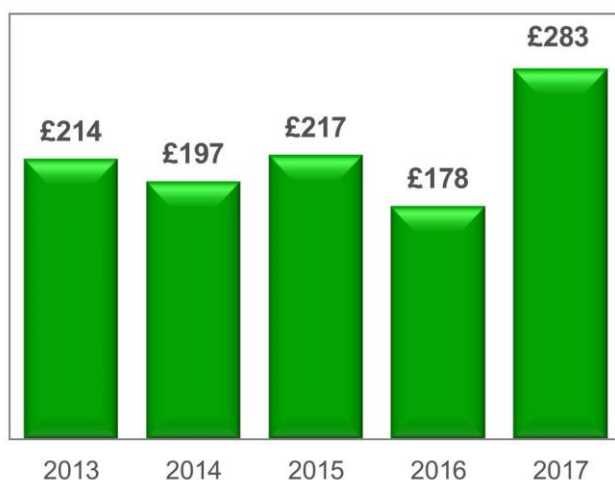
FCE supports savings customers by offering:

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

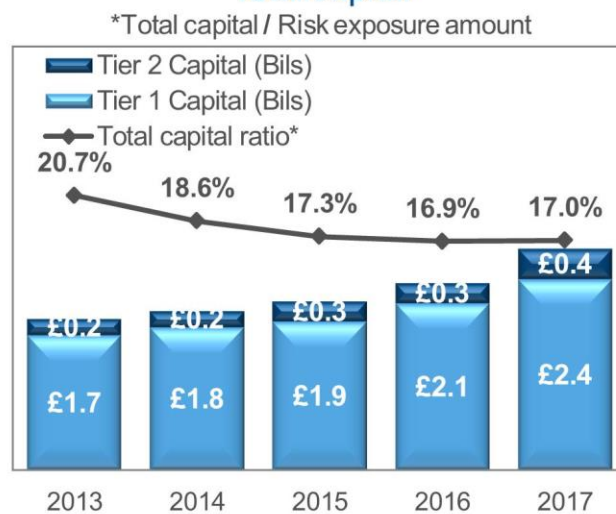
FCE's delivery of high quality service, treating customers fairly, combined with the right finance product for the customer, drives greater loyalty to Ford and the dealer. This generates shorter replacement cycles and incremental vehicle sales and means FCE can pass greater profits back to Ford. Ford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

Highlights

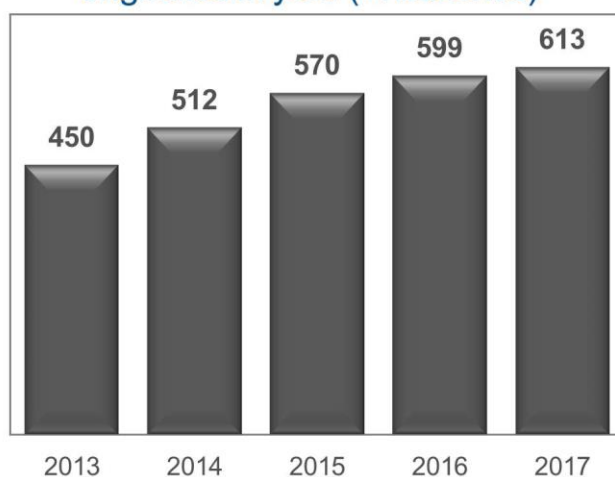
Profit before tax, PBT (Mils)



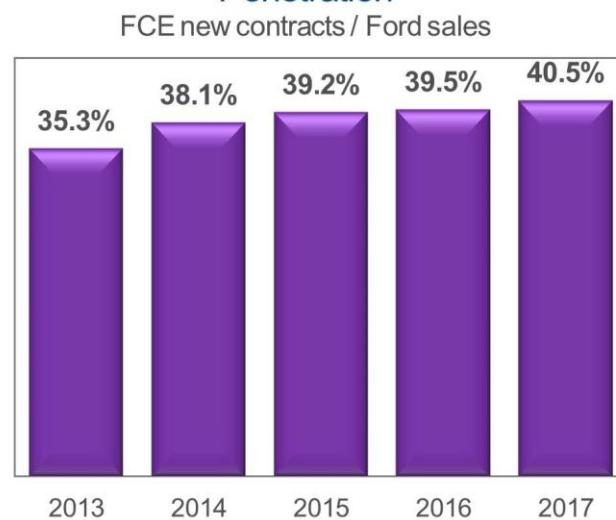
Total capital



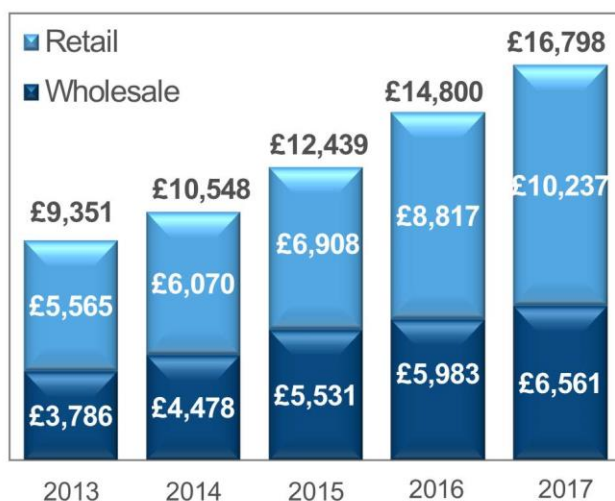
Number of retail contracts originated in year (Thousands)



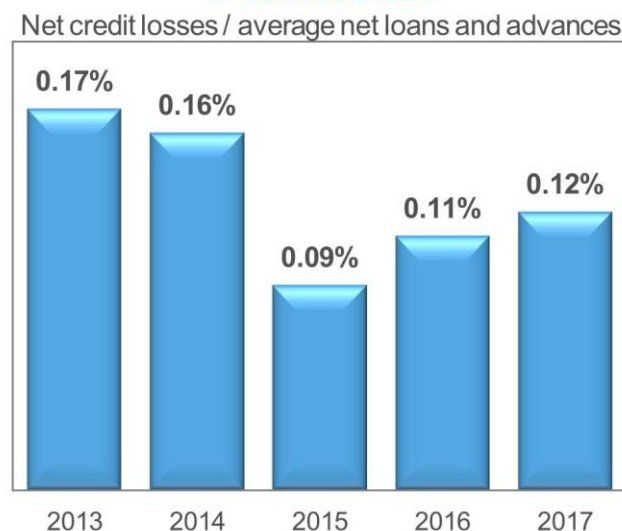
Penetration



Total net loans and advances (Mils)



Credit loss ratio



Business Performance

Sales

Total automotive sales in Europe increased to 17.5 million vehicles. This improvement, combined with stable Ford share and higher FCE financing penetration, resulted in FCE's sales increasing to around 613,000 retail contracts.

Customer Satisfaction

FCE commissions regular independent surveys to measure satisfaction amongst retail customers and dealers. The surveys measure satisfaction across a range of questions including overall satisfaction with FCE. Results are expressed as mean scores using a 10 point scale.

Across FCE overall, dealer satisfaction with FCE was stable at 9.0. A key strength for FCE is the strong relationship that it has with dealers and the level of support it provides to them. A key area of focus for FCE is to ensure that FCE is 'easy to do business with'.

Customer satisfaction with FCE was also stable during 2017 at 9.1. The majority of attributes are rated highly by our retail customers, including 'fair treatment' and likelihood to use FCE again.

Satisfaction Indices	2017	2016
Customer Satisfaction Index (CSI)	9.1	9.1
Dealer Satisfaction Index (DSI)	9.0	9.0

Profit Performance

FCE's Profit Before Tax (PBT) of £283 million in 2017 increased by £105 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 £273 million increased by £88 million. The increase is explained primarily by the non-recurrence of the exceptional 2016 payment of £64 million to indemnify FCE from a Ford-sponsored pension plan deficit, and the growth in receivables.

Profit performance	2017 £ mil	2016 £ mil
Profit from operating activities	£ 273	£ 185
Fair value adjustments to financial instruments	56	285
Gain / (loss) on foreign exchange	(46)	(292)
Profit before tax (PBT)	£ 283	£ 178

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		2017 £ mil	2016 £ mil
Financial statements data:	Notes		
A Total income		£ 843	£ 697
B Depreciation of operating lease vehicles	17	(291)	(203)
C Net credit losses	14	(20)	(16)
D Operating expenses	5	(260)	(292)
E Profit before tax		283	178
F Total assets		19,598	17,626
Additional data:			
G Average net loans and advances to customers		£ 15,969	£ 14,206
Key performance indicators:			
Margin ratio ((A+B)/G)		3.46%	3.48%
Credit loss ratio (C/G)		0.12%	0.11%
Cost efficiency ratio (D/G)		1.63%	2.06%
Return on Assets (E/F)		1.44%	1.01%

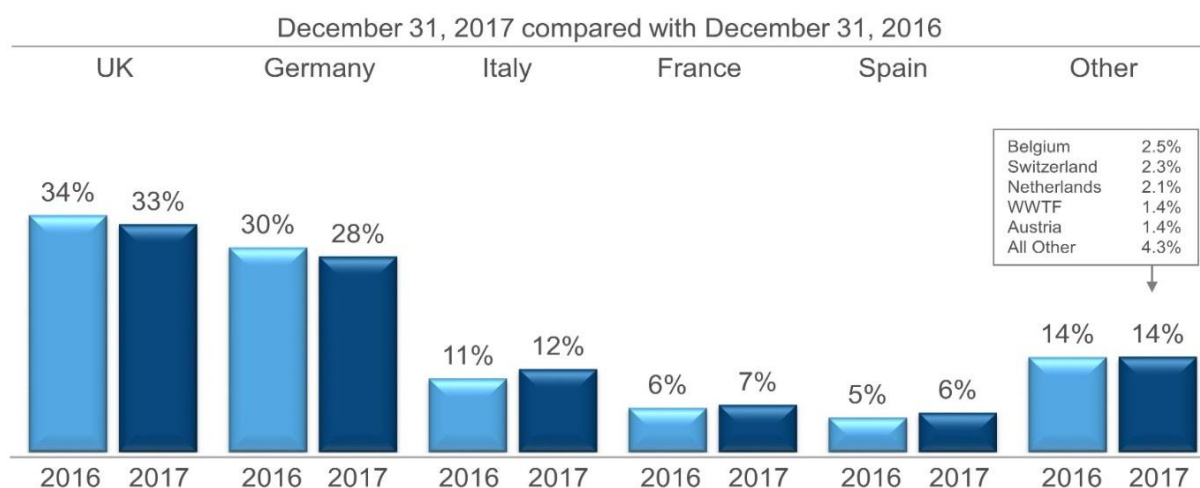
Net Loans and Advances to Customers

An analysis of FCE's net loans and advances by market as at 31 December 2017 and 31 December 2016 is set out in the chart on page 7.

Net loans and advances increased to £16.8 billion in 2017 from the 2016 year end position of £14.8 billion. The growth in the portfolio reflects the increase in retail contract sales and higher dealer stocks across all markets combined with the impact of the weakening of sterling on the value of Euro-denominated loans.

Business Performance

Analysis of net loans and advances to customers by market



Net Credit Losses

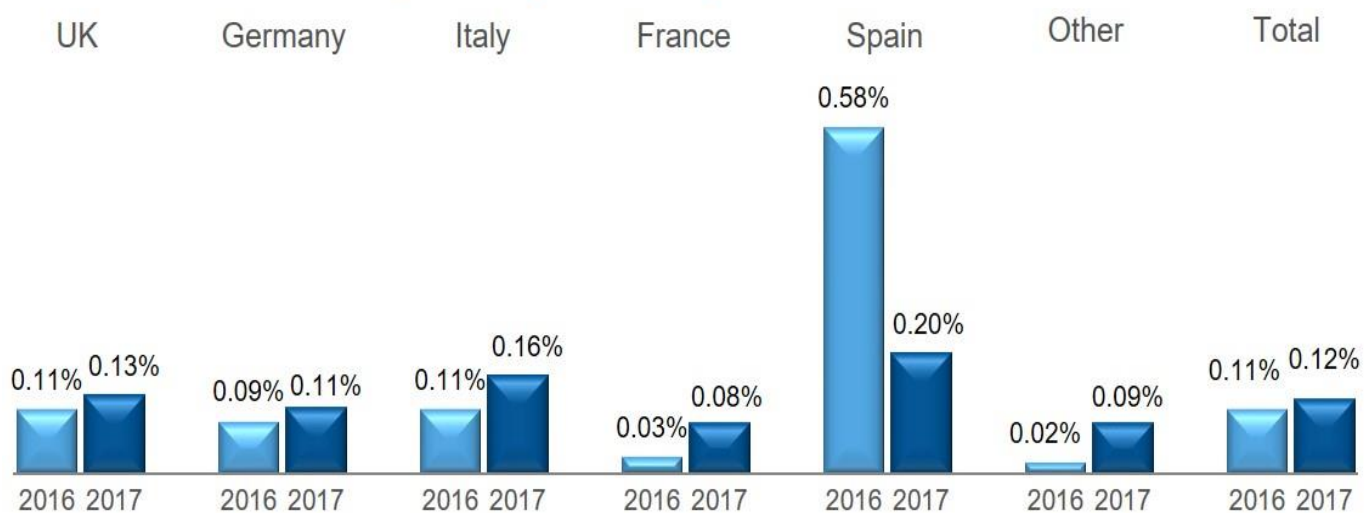
The 'Net Credit Losses' chart below expresses net credit losses for both wholesale and retail financing as a percentage of average net loans and advances to customers.

FCE has continued to deliver strong credit loss performance, and whilst 2017 has seen an increase in net losses across a

number of markets the results are within plan.

FCE's overall net credit loss ratio of 0.12% (2016: 0.11%) reflects a retail loss ratio of 0.20% (2016: 0.20%) and a wholesale loss ratio of 0.02% (2016: 0.00%).

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, while supporting a strategy of controlled growth within its risk appetite.

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

As at 31 December 2017, FCE's Common Equity Tier 1 (CET 1) ratio was 14.7% (2016: 14.5%) and the total capital ratio was 17.0% (2016: 16.9%). During 2017, FCE's leverage ratio remained well above 3.0%. For more details see the 'Pillar 3 Disclosures' which starts on page 107.

FCE paid a £35 million (2016:£50 million) dividend in 2017, which was reinvested in FCE in the form of Tier 2 capital.

Funding Sources

FCE's funding sources consist primarily of unsecured and securitisation debt, both of which are held mainly by institutional investors.

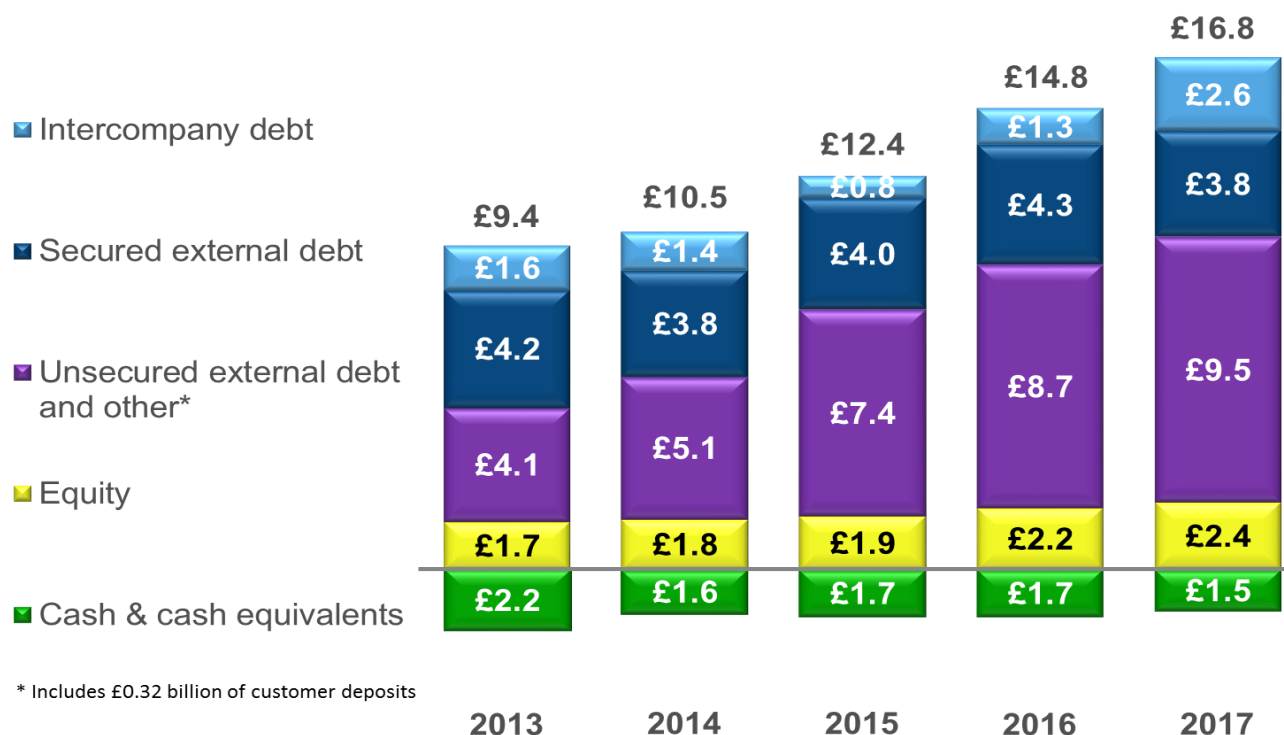
During 2017, FCE raised £2.3 billion of new funding in the public market, including £1.3 billion of unsecured debt and £1.0 billion of securitisation debt.

In April 2017 FCE launched customer deposits in the UK, backed by the UK Financial Services Compensation Scheme (FSCS), which further diversifies its funding. As of 31st December 2017 customer deposits represented around £0.3 billion of funding.

To provide increased flexibility to respond to risks and uncertainties created by Brexit, FCE has increased level of intercompany debt.

As a result, the proportion of unsecured debt reduced to 57% from 59%. Securitisation continues to play a key role in FCE's funding strategy although it is declining as a percentage of the overall total. For further details see the 'Funding Structure' chart below.

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



Business Performance

Credit Ratings

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

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

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

Credit Ratings	Fitch	Moody's	S&P
Long-Term Senior Unsecured	BBB	Baa2	BBB
Short -Term Unsecured	F2	P-2	NR
Outlook /Trend	Stable	Negative	Stable

Liquidity Profile

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

For additional information with regard to contractual maturities of receivables and debt, see Note 38 'Liquidity risk'.

Future Prospects

Providing economic conditions remain in line with expectations, FCE expects to continue to deliver controlled growth of its portfolio of net loans and advances and to report another strong year of profits from operating activities in 2018.

Contingency planning to ensure continued support for Ford, dealers and customers is ongoing to preserve options given the uncertainty of Brexit outcomes. Included in this planning is our application for a German banking licence which would enable the exercise of passporting rights in Europe. FCE anticipates that the German bank will be established in the second half of 2018.

In other European markets in which FCE currently operates, contingency plans are under development which may involve establishing finance companies. Any reorganisation of FCE's business involving finance companies depends on the outcome of Brexit negotiations and remains subject to FCE Board approval. FCE's UK business and FCE's subsidiary companies would not be affected as they will operate using their current licences.

At year-end 2018, FCE anticipates 'Net loans and advances to customers' to be in the range of £16.5 billion to £17.5 billion.

To support Brexit contingency planning Ford Credit plans to issue its Euro-denominated debt from the United States and on-lend the funding to FCE. FCE's 2018 funding plan includes public term funding issuance of £0.8 billion to £1.8 billion, including public unsecured term debt issuance up to £0.8 billion (which includes planned issuances of publicly listed non-syndicated debt) and public term securitisation of £0.8 billion to £1.0 billion.

The statement is based on the best available data at the time of issuance. Other than this, FCE does not undertake to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Business Environment

Risk Profile and Management

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

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

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

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

Enterprise Risk Management Framework

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

FCE seeks to manage appropriately all the risks that arise from its activities. There is a formal structure for monitoring and managing risks across the group, comprising risk appetites approved by the Board, detailed risk management frameworks including policies and procedures, plus independent governance and oversight of risk. 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 dynamic and formalised processes for the identification of the risks that it faces. FCE manages each form of risk uniquely in the context of its contribution to overall risk. Business decisions are evaluated on a risk aware and risk adjusted basis and are priced consistently with these risks.

Risk Appetite and Monitoring

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

The Risk Appetite Framework clearly defines the amount of risk FCE is willing to seek or accept in its pursuit of its long term objectives and is measured across 14 risk categories. Tolerance indicators are established within each category with the Risk Management function responsible for recommending either the tolerance, treatment, transfer or termination of any risk tracking towards an out-of-tolerance

position to the appropriate governance committee, be that Executive Committee, Risk Committee of the Board or Board of Directors.

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

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.

First Line of Defence

The first line of defence is the operational staff and departmental management have responsibility for following Policy procedures to mitigate any risks inherent in the operations of the business.

FCE has a 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, Finance, Operations and the Internal Controls Office (ICO) undertake the second line of defence, and are responsible for pan-European Policy and procedures executed by the First line management.

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

Third Line of Defence

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

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

Business Environment

Risk Committee of the Board

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

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

The core responsibilities include:

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

Whistleblowing

FCE has a whistle-blowing procedure for the confidential and anonymous submission by employees of concerns regarding business, accounting, and internal controls or auditing matters. No issues were identified during the reporting period.

Principal Risks and Uncertainties

FCE defines its principal risks as those key risks which are set out on pages 11 to 13. In addition to the risks faced by FCE in the normal course of business, some risks and uncertainties are outside FCE's direct control. This section outlines specific areas where FCE is sensitive to such risks.

The decision of the UK electorate and government to leave the European Union has increased uncertainty with respect to FCE's business environment. FCE is a bank authorised by the PRA and regulated by the FCA and the PRA to carry out a range of regulated activities within the UK and through a branch network in eleven other European countries. FCE currently enjoys this unrestricted access to the Single Market

through a passporting system, which allows it to establish or provide its services in the EU27 without further authorisation requirements. The Brexit Vote and the Article 50(2) Notification have introduced uncertainty over the future ability of UK-based financial services operators, including FCE, to continue to access the Single Market as they currently do via this passporting system. If passporting arrangements cease to be effective as a result of Brexit, FCE's ability to carry out regulated activities in those countries would be dependent upon various central banks and other regulators, including the European Central Bank, granting licences, where necessary, prior to the expiration of passporting rights.

The credit ratings of FCE and Ford Credit have been closely associated with the rating agencies' opinions of Ford. Lower credit ratings generally result in higher borrowing costs and reduced access to capital markets.

Ford of Europe currently provides a number of marketing programmes that employ financing incentives to generate increased sales of vehicles. These financing incentives generate significant business for FCE. If Ford 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.

More recently local and national Authorities, across a number of European jurisdictions, have started to focus on air quality, predominantly in cities. Various statements have been issued indicating a desire to restrict access to, or ban, vehicles with Internal Combustion engines ("ICE") from designated cities, or parts thereof. There has been a focus on diesel engines in the short to medium term and, there is a risk that residual values for diesel engine vehicles will depreciate at a greater rate than originally forecast. In the longer term, with the development of electric powered vehicles, combined with legislative changes to the disadvantage of ICE powered vehicles, there could be an adverse impact on FCE's business. FCE is in the process of developing strategies based on potential scenarios for the short / medium and long term to ensure the ongoing portfolio is protected and that future forecasting is in line with potential market changes.

Key Risks

FCE's Pillar 1 capital requirements are calculated using prescribed methods 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.

Business Environment

Credit Risk

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

FCE 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 Pillar 3 Disclosures, which start on page 107, give more detail on FCE's credit risk exposures, their relationship to FCE's Statement of Financial Position and the capital requirements they derive.

Retail (Consumer and Commercial) Credit Risk Management

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

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

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

In the majority of locations, FCE operates centralised originations, servicing and collections activities, 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 contracts receive appropriate collection attention.

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

Vehicle Residual Value Risk

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

Trade Cycle Management "TCM" contracts, which represent the majority of finance plans where FCE accepts residual value risk, are typically set below expected market value by 5-8% of the vehicle's price in order to generate equity for the customer at the end of the contract. Other contracts are set at the expected future value of the vehicle.

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

For further details refer to Note 36 'Vehicle residual values'.

Wholesale Credit Risk Management

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

Each dealer lending request is evaluated, 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.

Counterparty Credit Risk

FCE could incur a credit loss if the counterparty to an investment, deposit, interest rate or foreign currency derivative with FCE defaults. This is known as counterparty credit risk for regulatory reporting and FCE uses the Mark to Market (MTM) method to calculate this. More detail on FCE's counterparty credit risk exposures, and the capital requirements they derive can be seen in 'Pillar 3 Disclosures' which start on page 107.

Business Environment

In addition to a credit loss caused by a counterparty default, banks can also suffer mark to market losses associated with the counterparty's creditworthiness and this is termed credit valuation adjustment (CVA) risk. FCE does not consider CVA to be a key risk. FCE holds Pillar 1 capital for CVA calculated under the standardised approach as prescribed by the Capital Requirements Regulation (CRR). The value of this capital requirement can be seen in 'Pillar 3 Disclosures' in Table 5 on page 112.

Operational Risk and Operational Resilience

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational Resilience is the ability to adapt operations to continue functioning when circumstances change. Operational risk includes risks such as information technology process failure, significant organisational change risk, human error, and lapses in internal controls, fraud or external threats (e.g. cyber-attacks). Processes are in place to identify and assess these risks in order to enable effective risk management.

FCE follows the principles of the "Three Lines of Defence" model as outlined above, to manage and mitigate operational risk through a robust governance framework.

FCE has specific committees in place to implement policies, procedures and processes to control or mitigate material exposure to losses. They ensure suitable procedures and contingency plans are in place to minimise the risk of information technology process failures. This is to ensure the maintenance of suitable contingency arrangements, for all areas, so that FCE can continue to function in the event of an unforeseen interruption.

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

The Risk Control Self-Assessment process (RCSA) is the process used across the business to identify and assess operation risk.

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 'Pillar 3 Disclosures' in Table 5 on page 112.

Market Risk

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

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

FCE reduces its exposure to market risk through the use of interest rate and foreign currency exchange derivatives. FCE's strategy for the use of derivatives is designed only to mitigate risk; derivatives are not used for speculative purposes. For further details, refer to Note 37 'Market Risk'.

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

FCE's derivative policy as described on page 80 means it does not have a trading book under CRD IV rules therefore is only required to hold Pillar 1 capital for its currency PRR under the market risk requirements. The value of the capital requirement can be seen in 'Pillar 3 Disclosures' in Table 5 on page 112.

Other Risks

In addition to the risk types outlined above, for which Pillar 1 capital requirements are calculated, FCE considers a number of other risk areas significant to its business which it takes into account when establishing its risk governance and integrated risk management practices. These are detailed below:

Concentration risk is the risk resulting from FCE's concentration of exposures within geographic regions, sectors, 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.

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

Business Environment

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

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

FCE, in conjunction with Ford, uses internal and external actuaries to review the pension liabilities, which is a key part of FCE's capital planning.

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

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

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

For further details, refer to Note 16 'Securitisation and Related Financing' and Note 38 'Liquidity Risk'.

Since the introduction of the Liquidity Coverage Ratio (LCR) under the Commission Delegated Regulation (EU) 2015/61 of 10 October 2014, FCE has incorporated monitoring and compliance with the new requirements within its daily reporting and forecasting processes. FCE has exceeded the regulatory requirements throughout 2017. In accordance with Article 33(4) (a) of Commission Delegated Regulation (EU) 2015/61, the PRA have granted FCE permission to apply a cap to liquidity inflows at 90% of liquidity outflows.

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

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

FCE has a set risk appetite against each of these.

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

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

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

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

Interest rate risk is the risk arising from fluctuating interest rates. FCE's asset base consists primarily of fixed-rate retail instalment sale, hire purchase, conditional sale and lease contracts, with an average life of approximately 2.5 years, and floating rate wholesale financing loans with an average life of approximately 2 months

Business Environment

Funding sources consist primarily of securitisation and unsecured term debt. It is FCE's policy to execute interest rate swaps to change the interest rate characteristics of the debt to match, within a tolerance range, the interest rate characteristics of FCE's assets. This matching policy seeks to maintain margins and reduce profit volatility. Further details on FCE's interest risk and interest rate risk management can be found in Note 37b) 'Interest rate risk'. FCE also utilises the Economic Value of Equity model to help inform its capital requirement for interest rate risk.

FCE's Approach to Regulatory Compliance

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

Non-Financial Statement

Our People

Here at FCE, our employees are the drivers behind our successes. As we continue to grow our business in a controlled manner, we rely even more deeply on the skills and talents of our dedicated European workforce of around 1,800 individuals.

People Strategy

FCE's people policies and practices recognise fully the company's status as a regulated bank domiciled in the UK, and therefore the standards of conduct, behaviour and ethics it is required to meet. FCE aims to be an "Employer of Choice". It has a strong focus on developing employees, together with a retention strategy to ensure that the skills and experience required to support business objectives are retained. In accordance with the company succession planning policy, FCE's people strategy includes the use of Personnel Development Committees to support the recruitment and development of employees and ensure effective succession planning for key roles. FCE has a remuneration and benefits philosophy targeted at achieving overall competitiveness with the external market, rewarding contribution to FCE's performance and retaining key skills. FCE operates a robust training and competency framework to provide individuals with the skills, knowledge and expertise to discharge their responsibilities effectively. In line with the Company's Learning and Development policy, annual individual development plans are completed for all employees and identify training and development needs, including Treating Customers Fairly, compliance, risk management and leadership development.

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

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

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

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

Employee Communication

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

Basic Working Conditions and Corporate Responsibility

FCE recognises that employees are our most important resource. In recognition of their contributions, FCE has policies and programs 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 programs to benefit the communities where we operate. Although these principles are not new to FCE, they are vitally important to what we stand for as a company.

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

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

Non-Financial Statement

Human Rights

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

Bribery and Corruption

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

Labour

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

Health and Safety

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

Employment Practices

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

Work Hours

FCE complies with applicable laws regulating hours of work.

Environmental and Social Matters

FCE is an integral part of Ford's global effort towards a sustainable environment. Since 2000, Ford has reduced its worldwide Green House Gas (GHG) emissions by more than 50%. Ford has also reduced its volume of waste sent to landfills by 49%. Our efforts in sustainability and corporate citizenship have been recognised globally. For the eighth straight year, Ford was named one of the World's Most Ethical Companies by the Ethisphere Institute – a reflection of Ford's core values and employees' commitment to corporate social responsibility at every level our company. For more information on Ford's sustainability strategy refer to the corporate website on page 131.

During 2017 FCE continued 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.

Supply Chain

FCE encourages businesses throughout our supply chain to adopt and enforce similar policies to those articulated here in their own operations. Further, FCE seeks to identify and do business with organisations that conduct their businesses to standards that are consistent with our 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 our Policies. Our 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.

Governance

Corporate Governance

The Directors consider that effective corporate governance is a key factor underlying the strategies and operations of FCE. FCE lists only debt securities on stock exchanges; it therefore has fewer reporting obligations than a company with listed equity.

FCE regularly undertakes benchmarking against the latest guidelines on corporate governance, making any adjustments it deems necessary and appropriate.

The Board of Directors

The 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.

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

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

The present Directors and Company Secretary, who have served throughout the year and up to the date of signing the Financial Statements are as stated on page 3.

(**Charles Bilyeu** was appointed Chief Executive Officer with effect from 1st January 2018. **Richard Owen** was appointed Director with effect from 1st January 2018 and resigned with effect from 6th March 2018. **Nick Rothwell** resigned as Director with effect from 1st January 2018.)

Biographical Details of Directors

Thomas ('Tom') Charles Schneider, Non-Executive Director is Executive Vice President and Chief Risk Officer, Ford Motor Credit Company and was Executive Director, Global Operations, Technology and Risk. Tom was appointed to the Board of Directors on 27 January 2011.

Charles Alan Bilyeu, Chief Executive Officer, was previously Vice President Business Centre Operations Ford Motor Credit Company. Charles joined Ford Credit in 1988 and was appointed to the FCE Board of Directors on 1 July 2015.

John Coffey, Executive Director, Chief Risk Officer, was Managing Director, Ford Credit Britain, immediately prior to his present appointment. John joined FCE in 1980 and was appointed to the Board of Directors on 1 August 2002.

Paul Roger Kiernan, Executive Director, Finance, a Chartered Accountant since 1992 and a member of the ICAEW. Prior to taking up his present appointment, Paul was Finance Director for Ford of Britain. Paul was appointed to the Board of Directors on 1 November 2011.

Dale Jones joined Ford Credit in 1989 and serves as Executive Vice President of the Americas. He currently holds the positions of Chairman of Ford Credit Canada Company, Chairman of RouteOne Ltd, Director of American Financial Services Association (AFSA), FCSH GmbH, YMCA of Metropolitan Detroit and Member, and AWARE (Americans Well-Informed on Automobile Retailing Economics).

John Dalrymple Callender, Senior Independent Non-Executive Director and Chair of FCE's Risk Committee is the Non-Executive chair of ANZ Bank Europe Ltd and Shawbrook Bank Ltd. John is also a panel member of the Financial Conduct Authority Regulatory Decisions Committee. Previously he had served as Non-Executive Director at Aldermore Bank plc and Motability Operations Group plc and also held a number of senior roles with Barclays plc including Chief Executive of Barclays Mercantile as well as a number of other Non-Executive Directorships. John was appointed to the Board of Directors on 24 March 2011.

John Reed, Independent Non-Executive Director and Chair of FCE's Audit Committee, is Chairman of EFG Private Bank. He is also the Chairman of ActivTrades, the National Motor Museum Trust and Innovation Finance. He is also a NED of the Bank of the Philippine Islands (Europe) where he chairs the Audit and Risk Committee. Mr Reed is also Director of Silverback (UK) Limited. Previously, he served on the boards of Hambros Bank, which later became a subsidiary of Societe Generale when he became Group COO, Arbuthnot Banking Group, Tesco Bank and Arbuthnot Latham where he was CEO. John is an ACIB. John was appointed to the Board of Directors on 7 April 2014.

Charlotte Morgan, Independent Non-Executive Director, is a Non-Executive Director and Chair of the Audit Committee at Sumitomo Mitsui Banking Corporation Europe Ltd. She is also a member of the Council of the Association of Corporate Treasurers. She is a Chartered Accountant and her career has been mostly in financial services. She serves on the board of two arts charities, Spitalfields Music and Second Movement Opera, where she chairs the trustees. Charlotte was appointed to the Board of Directors on 1 October 2014.

Suzanna Taverne, Independent Non-Executive Director and Chair of Remuneration Committee, is Chair of Marie Stopes International and a trustee of Age UK. She was formerly a trustee of the BBC, Non-Executive Director of Nationwide Building Society, Director of Imperial College London, Managing Director of the British Museum, Director of Strategy at Pearson plc, and Finance Director of The Independent. Suzanna was appointed to the Board of Directors on 1 April 2008.

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.

Non-Executive Directors (NEDs)

The appointment of an independent NED is for an initial term of up to three years, renewable for a second term of up to three years on mutual agreement. In certain circumstances further terms may be agreed. FCE's Articles of Association require that all directors retire and stand for reappointment at each Annual General Meeting (AGM). Appointments are terminable on one month's notice by either party.

The Board considers four of the six NEDs to be independent because they have no material business relationship with FCE, (either directly or as a partner, shareholder or officer of an organisation that has a relationship with FCE), and they neither represent the shareholders nor have any involvement in the day-to-day management of FCE or its subsidiaries. As such they bring objectivity and independent judgement to the Board, which complements the Executive Directors' skills, experience and detailed knowledge of the business.

Moreover they play a vital role in the governance of FCE through their membership of the Audit, Risk and Remuneration Committees to which they are each appointed. Each year the NEDs hold a meeting with the Chair to discuss Executive Director succession planning, corporate governance and any other relevant issues. The Board reviews the number of Executive Directors and NEDs periodically to maintain an appropriate balance for effective control and direction of the business.

A Senior Independent Director ('SID') has been appointed to provide a sounding board for the Chair and to serve as an intermediary for the other directors when necessary. The role of the SID is to take a lead role with the other NEDs, representing collective views to the Chair, Board and to

representatives of FCE's shareholders. John Callender was appointed to the role of SID on 1 November 2014.

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

Selection of Directors

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

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

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

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

Matters Reserved to and considered by the Board

In 2017 the Board held six regular board meetings and two ad hoc meetings to approve recommendations received from sub-committees. It held a strategy meeting and a two day conference with senior management at which the strategy was reviewed, taking into consideration the external economic environment, Ford Motor Company's strategy, and the Company's need to create shareholder value.

Governance

Matters Reserved to and considered by the Board Continued

In 2017 the Board reviewed the Company's Risk Appetite Framework, evaluating all risks affecting the business and the processes put in place to address them. It also reviewed the Company's commercial strategy, business, funding and liquidity plans and the inputs required to support the ICAAP, RRP (Recovery Plan and Resolution Pack) and ILAAP (Internal Liquidity Adequacy Assessment Process). It reviewed the annual operating budget, capital structure, dividend policy and statutory accounts. The Board also reviewed the financial performance and operation of each of FCE's businesses, including its performance in treating customers fairly together with other business reports and presentations from senior management.

Particular subjects discussed by the Board included:

- The Company's contingency strategy, risks and opportunities presented by Brexit;
- The present and likely future environment concerning diesel vehicles;
- Data protection regulatory changes and cyber security;
- Internal audit resources;
- HR culture framework and gender pay report; and
- FCE's strategy to support mobility and provide value to our dealers and customers.

Committees of the Board

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

Membership and Attendance

	Board of Directors	Audit Committee	Remuneration Committee	Risk Committee
Meetings held	8	6	5	4
Attendance				
C A Bilyeu	6/8			
J D Callender	8/8	5/6	5/5	4/4
J Coffey	8/8		4/5	
D Jones	6/8			
P R Kiernan	8/8			
C E D Morgan	8/8	6/6	5/5	4/4
J Reed	8/8	6/6	5/5	4/4
N Rothwell	7/8		5/5	
T C Schneider	8/8			4/4
S Taverne	7/8	6/6	5/5	4/4

The terms of reference of the Audit, Risk and Remuneration Committees can be found on FCE's website.

The report of the work of the Audit Committee can be found on pages 22 and 23.

Details of the functions and work of the Risk Committee can be found on page 11 of the Strategic Report

During the year 2017, the Remuneration Committee (RemCo) met on five occasions. 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. The RemCo reviewed succession plans for all senior roles. The committee also undertook a Remuneration Committee Effectiveness Review in order to determine areas of best practice and opportunities for improvement. The RemCo reviewed and approved the bank's Pillar 3 disclosures regarding remuneration, which were published to the bank's website. Gender Pay Report which was approved by the Board in December and published in January 2018.

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 ten members, four of whom are Executive Directors. The EC consists of individuals responsible Marketing, Sales and Brand, Information Technology, Legal and Compliance, Strategy, Finance, Operations and Risk Management. The EC held 14 meetings during 2017.

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.

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 module can be found on page 10.

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 sufficient 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 Financial Reporting Standards (IFRS) as adopted by the European Union.

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

Ford's GAO is fully independent from FCE. Its coverage is based on the relative risk assessment of each 'audit entity', which is defined as a collection of processes and systems that are closely related. The 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

PwC conducts audits of FCE's group and company financial

statements in accordance with International Standards on Auditing (UK), ensuring the financial statements are prepared in accordance with law and IFRS (as adopted by EU).

The Audit Committee reviews PwC's continued independence, performance, significant relationships and compliance with relevant ethical and professional guidance. The Audit Committee makes a recommendation to FCE's directors on the appointment of the auditor who then propose the appointment to shareholders who appoint the auditor at the Annual General Meeting. In addition, the Audit Committee reviews PwC's audit plan, its scope and cost effectiveness and the audit fee. PwC's audit fees for 2017 are outlined in Note 5 'Operating expenses'.

Independence

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

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

Additionally, it has been agreed that the external auditors should generally be excluded from providing permitted advisory services and all other non-audit related services, unless the firm appointed as external auditor is:

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

As auditors, PwC will undertake work that they must or are best placed to complete. This includes formalities related to borrowings or work in respect to regulatory reports. The appropriateness of proposed engagements are reviewed by the Audit Committee in the light of relevant Ethical Standards, Securities and Exchange Commission requirements and the considerations highlighted above.

Audit Committee Report

Composition, skills and experience

Under the chairmanship of John Reed, the other members of the committee during the year were John Callender, Charlotte Morgan and Suzanna Taverne, who are all independent Non-executive Directors.

The qualifications and experience of the members of the committee are set out on pages 18 to 19. The Company is satisfied that the Committee members have recent and relevant experience in finance and banking, being the sector in which the Company operates. The Company is satisfied that Ms Morgan has the necessary competence in accounting and auditing.

The Chief Executive Officer, Finance Director, Chief Risk Officer, Legal Director, Head of Compliance and Head of Internal Audit attend Committee meetings along with the external auditors who are invited to attend and report at all meetings. The committee also meets privately with both internal and external audit. The Committee met six times during the year. Attendance can be found on page 20.

Terms of Reference

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

The responsibilities of the Audit committee include:

- Monitoring the financial reporting process and submit recommendations or proposals to ensure its integrity;
- Monitoring the effectiveness of the issuer's internal quality control risk management systems and internal audit;
- Monitoring the statutory audit of the annual and consolidated financial statements, in particular, its performance;
- 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; and
- Responsibility for the procedure for the selection of statutory auditors and recommending the statutory auditors to be appointed.

The Audit Committee's Work

In fulfilling its role the Audit Committee has:

- Kept under review the effectiveness of the Company's governance, risk and control frameworks, receiving reports on the integrity of financial reporting, process changes arising from the launch of Customer Deposits and FordPay, progress against internal audit plans, the reporting and resolution of operationally identified and audit comments, also identifying any thematic trends and how the root cause has been addressed;
- Approved the Internal Audit annual work plan focusing on key risks and key internal controls and reviewed the capacity, scale and scope of internal audit resources required to meet the audit plan including the outsourcing of internal audit work;
- Reviewed the content of the annual report and accounts including the effectiveness of governance and quality assurance, management representations, going concern statements and Pillar 3 disclosures;
- Reviewed and approved the annual external audit plan ensuring it focused on significant audit risks, monitored the Company's response to audit findings and approved the audit fees;
- Reviewed the recovery plan;
- Reviewed the services provided by the external auditors for audit and non-audit services during the year and considered the policy for non-audit services to ensure that auditor objectivity and independence is safeguarded. The Audit Committee reviewed each area of non-audit work performed and considered the relevant safeguards the auditors had put in place to address any potential threat to independence;
- Overseen the process being undertaken by the Company to comply with mandatory audit rotation requirements given the present firm has held the position for more than 30 years. The Company proposes to seek tenders in 2019;
- Scrutinised how the Company is responding to and is complying with significant accounting, regulatory and legal developments affecting it, including, amongst others the governance requirements relating to and the financial impacts of IFRS9, in relation to which an in-depth review was undertaken, Anacredit and daily VAT reporting, approving its Modern Slavery Statement and receiving progress updates on General Data Protection Regulation compliance;

Audit Committee Report

The Audit Committee's Work Continued

- Reviewed the Company's tax strategy;
- Continued to review its effectiveness as part of a wider board effectiveness review;
- Reviewed the Dividend Payments, Provisioning and Pillar 3 Policy Statements;
- Reviewed internal audit reports, including those in relation to:
 - (a) Common Reporting (COREP) and the effectiveness of operational and system practices to support the COREP returns including, governance of COREP return process, desk procedures, templates and dashboards, data protection and record retention processes, and submission of COREP returns;
 - (b) The effectiveness of the Risk Appetite Framework (including the process for updating the framework), the identification and development of the metrics and thresholds established across all global regions, as well as their monitoring and reporting;
 - (c) The ICAAP processes, including validations of a sample of statements and values reported in the 2016 ICAAP document, governance around test assumptions and first and second lines of defence assurance activity;
 - (d) Deposit Taking, including a review of external supplier's operating Policies and procedures, a review of the Company's Internal Governance related to Deposit Taking and a review of supplier/company Information Technology Operations; and
 - (e) IT Global Access to Mainframe Security, evaluating the effectiveness of operational and system practices within Resource Access Control Facility (RACF) Global Access Controls, including: administrator activities, software configurations, user administration, access controls, change control, service contracts, software maintenance, disaster recovery, and RACF tools management and application controls.

ON BEHALF OF THE AUDIT COMMITTEE
 John Reed
 22 March 2018

Directors' Report

The Directors present their Annual Report, together with the Company and Group Financial Statements and Independent Auditor's Report, for the year ended 31 December 2017.

The Business Review and future developments are set out in the Strategic Report on pages 5 to 9.

The Group's risk management disclosures are set out in the Strategic Report on pages 10 to 15. 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 37 'Market Risk' to the Financial Statements.

Events occurring after the reporting date are discussed in note 44 to the Financial Statements. Details of Branches outside the UK are disclosed on page 106.

An interim dividend of £35 million (2016: £50 million) in respect of ordinary share capital was paid to FCSH in December.

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 18 to 19. The Company's people strategy is disclosed on page 16.

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 projections for the Group's capital and funding position. As a result of this assessment, the Directors consider that it is appropriate to adopt the going concern basis of accounting in preparing the Company and Consolidated Financial Statements.

Disclosure of Relevant Audit Information

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

Directors Responsibility Statement

The Directors are responsible for preparing the Annual Report and the Company and Group's financial statements in

accordance with applicable law and regulations.

The Directors are required by law to prepare the Company and Group's financial statements for each financial year in accordance with the requirement of the Companies Act 2006 and IFRS as adopted by the EU. and, as regards the Group financial statements, Article 4 of the IAS Regulation. IFRS has been followed for the Group and Company financial statements, subject to any material departures disclosed and explained in the financial statements.

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

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the above requirements. They are also responsible for safeguarding the assets of the Company and the Group, and for taking reasonable steps for the prevention and detection of fraud and other irregularities

In preparing the Company and Group's financial statements for the year ended 31 December 2017, the Directors also are required to select suitable accounting policies and apply them consistently, make judgements and estimates that are reasonable and prudent, confirm that applicable accounting standards have been followed and confirm that the financial statements have been prepared on the going concern basis.

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

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

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

The Directors confirm that they have complied with the above requirements in preparing the financial statements for the year ended 31 December 2017.

Approved by the Board of Directors and signed by order of the Board

Charles Bilyeu - Chief Executive Officer

2017 Financial Statements

Independent Auditors' Report to the Members of FCE Bank plc.

Opinion

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

- Give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2017 and of the group's profit and the group's and the company's cash flows for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the group and parent company statements of financial position as at 31 December 2017; the consolidated statement of profit or loss and other comprehensive income for the year then ended, the group and parent company statements of cash flows, and the group and parent company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Our audit approach

Overview



Materiality

- Overall group materiality: £14.1m (2016: £12m), based on 5% of profit before tax for the year.
- Overall company materiality: £14.5m (2016: £3m), based on 5% of adjusted profit before tax for the year.
- Profit or loss before tax is a key performance indicator for the group and company and a key measure for the primary users of the financial statements.
- Our audit has been performed at the lower of overall group and company materiality.

Audit scope

A summary of our audit scoping approach is shown below:

- The group operates in 15 countries through a subsidiary and branch network.
- The German and UK businesses were categorised as financially significant components.
- Other markets, being France, Italy and Spain, were also scoped in in order to achieve adequate audit coverage.
- Work was performed centrally at the Group's shared business centre, and over process and operational support received from other Ford group entities, related to Treasury activity, IT infrastructure, and operational processes.
- Three international operational sites were visited by the group audit team being Germany, Spain and India.

Key audit matters

The key audit matters comprised:

- Recognition of revenue on loans (group and company).
- Provision for credit losses (group and company).
- Adoption of new accounting standard IFRS 9 (group and company).
- Provisions for tax uncertainty – (group and company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 5 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 January 2017 to 31 December 2017.

Independent Auditors' Report to the Members of FCE Bank plc.

The scope of our audit continued

We focused on laws and regulations that could give rise to a material misstatement in the group and company financial statements, including, but not limited to UK and overseas tax legislation, Companies Act 2006, the Prudential Regulation Authority's and Financial Conduct Authority's regulation and Financial Services and Markets Act 2000. Our tests included, but were not limited to validating the financial statement disclosures to underlying supporting documentation, review of correspondence with and reports to the regulators, review of correspondence with legal advisors, enquiries of management, review of component auditors' work and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above 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 would become aware of it.

We did not identify any key audit matters relating to irregularities, including

fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Recognition of revenue on loans</p> <p>We focused on this area as it is the primary source of income for the group and company.</p> <p>Interest income on loans is recognised using the effective interest rate method which spreads directly attributable cash flows, including transaction costs over the loans' expected lives.</p> <p>The expected lives assumptions utilise estimated lives of contracts, and repayment profiles to represent how customers are expected to repay.</p> <p>We focused on the management judgements made in these areas, and also in determining the appropriate recognition of interest income earned from related parties.</p> <p>Please refer to note 2 on page 44.</p>	<p>We evaluated the design and tested the operating effectiveness of controls over the calculation and reporting of interest income on loans. These controls included: the review and approval of the pricing terms, and the review and approval of the model itself. We determined that we could rely on these controls for the purposes of our audit.</p> <p>We tested whether interest income is recognised in accordance with the effective interest method prescribed by IFRS including evaluating management's judgements and supporting evidence for prepayment rates and estimated contract lives. We found no material exceptions in management's judgements over the prepayment rates and estimated contract lives.</p> <p>We recalculated interest income recognised on a sample of loan contracts using FCE's effective interest rate methodology and found no exceptions.</p> <p>We tested interest income from related parties, and evaluated the determination by management that interest income earned was at a market rate. We found no material exceptions.</p>
<p>Provision for credit losses</p> <p>We focused on the provision for credit losses because the directors make significant judgements over both the timing and recognition of credit loss provisions and the estimation of the size of the required provision.</p> <p>Loans are made to individuals and small businesses to finance the purchase of vehicles. Loans are also made to dealerships to finance new and second hand vehicle stocks. In the large majority of cases collateral is held by FCE in the form of legal title over the vehicles financed.</p> <p>For retail loans and advances, the material proportion of the credit loss provision is estimated based upon a modelled basis for the entire portfolio on a location by location basis. For wholesale loans and advances, the material proportion of the provision is individually determined. The provision methodology adopted by FCE is based upon a Ford Motor Credit Company approach developed for group use.</p> <p>Post model adjustments and overlays are recorded in response to factors not reflected in the modelled credit losses including macro-economic factors at a national level and the removal of specific non-recurring loss events in the wholesale portfolio.</p> <p>We focused our audit work on the key assumptions and judgements made by the directors that underlie the estimation of modelled retail credit losses, which include the loss emergence period used for unidentified credit losses, the loss to receivables ratio and the sources and appropriateness of the key inputs to the model.</p> <p>Please refer to note 14 on page 59.</p>	<p>We evaluated the design and tested the operating effectiveness of the controls over the credit loss provision calculations. These controls included the approval of inputs to the calculation, the review and approval of post model adjustments and the review of the final calculation. Additionally we tested the controls over restricted access to the credit loss calculation. We determined that we could rely on these controls for the purposes of our audit.</p> <p>We evaluated the methodology used by FCE and compared it to the requirements of IFRS.</p> <p>We tested the appropriateness of the assumptions in the model including performing back testing on the 31 December 2016 provision by comparing to actual losses arising in 2017 and performing sensitivity analysis over key assumptions in the 2017 model.</p> <p>We tested the completeness and accuracy of inputs used in the retail impairment model including recalculation of the weighted average loss to Receivables and, agreeing end of period receivables to source systems.</p> <p>We considered the appropriateness of post model adjustments by assessing the rationale for each adjustment and the logic applied, the source data used and the key assumptions adopted. We then performed sensitivity analysis over the key assumptions and considered the completeness of the model adjustments.</p> <p>We found no material exceptions.</p>

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Independent Auditors' Report to the Members of FCE Bank plc.

Key audit matter	How our audit addressed the key audit matter
Adoption of new accounting standard IFRS 9	
<p>IFRS 9 is required to be adopted by FCE from January 2018, and as part of the disclosures required by IAS 8 for the 2017 year-end, the financial statements include an impact assessment on the adoption of IFRS 9 in note 1 on pages 42-43. This discusses the qualitative and quantitative impacts of the new standard IFRS 9 adoption by FCE.</p> <p>The analysis supporting the transition adjustment involves the use of sophisticated modelling techniques and relies upon the management judgement related to areas such as the probability of default, identification of significant changes in credit status and loss given default. Future economic scenarios selected by management are also included in the estimate. We focused our audit work on the key assumptions and judgements made by management in developing the IFRS 9 models, and assessing the methodology adopted by FCE against IFRS 9 requirements.</p>	<p>We used internal specialists and actuarial experts to assess each model's compliance with IFRS 9 and to test whether each model was performing calculations in accordance with the FCE methodology adopted. We evaluated the nature of simplifications adopted in the models, and performed sensitivity analysis on these. We evaluated the appropriateness of assumptions and judgements made by management, including assessing the rationale for each assumption and judgement, and tested the completeness and accuracy of the source data used to create the models.</p> <p>We also performed sensitivity analysis over the key assumptions.</p> <p>No material issues were noted.</p>
Provisions for tax uncertainty	
<p>FCE, through its subsidiary and branch network, is subject to taxation in multiple jurisdictions throughout Europe. In certain cases, the tax treatment of results or transactions is uncertain, and may be subject to challenge, and is not determined until formally resolved with the relevant tax authorities.</p> <p>Consequently, the directors make judgements about the incidence and quantum of tax assets and liabilities which are subject to a future outcome of assessments by the relevant tax authorities, and, in some cases, actual or potential legal proceedings.</p> <p>We focused our audit work on these judgements and developments during the period.</p> <p>Please refer to notes 9 and 18 on page 52 and 64-65 respectively.</p>	<p>We examined the matters where disputes have arisen or where determinations remain under discussion, and used our knowledge of the law of the relevant tax jurisdictions and other similar taxation matters to assess the evidence and provisions made by the directors.</p> <p>Our tax specialists examined correspondence between FCE and relevant tax authorities, and between FCE and its external advisors for each material uncertain tax position and ensured the disclosures were appropriate.</p> <p>We concluded that management's judgements in respect of the uncertain tax positions are supportable in the context of the information available.</p>

How we tailored the audit scope

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

The group operates in 15 European countries through a subsidiary and branch network. It operates its own shared business centre in Manchester, UK, and obtains operations, process and infrastructure support from related party (other Ford Group) operations in the US, Spain, Germany and India.

The group's most financially significant markets are the UK and Germany, and these were considered full scope components for our audit. Other large markets include France, Italy and Spain. While not individually significant operations, these were included in our scope to achieve sufficient audit coverage. We also identified audit work to be performed over selected business processes performed by the Ford group on behalf of FCE. In determining the work to be performed, we considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error).

We determined that our audit procedures would be performed either centrally by the group team, or by other PwC network firms operating under our instruction. These instructions included the required nature, timing and extent of the procedures to be performed, materiality levels and compliance with ethical standards and independence regulations. Our involvement with component teams included visits to selected locations, and reviews of selected audit working papers, ensuring that the audit work performed was adequate for our purposes. We also evaluated and confirmed the competence of each instructed office, including professional experience and qualifications of key team members.

This approach gave us coverage of over 90% of group total assets. Audit coverage on account balances in the group consolidated statement of profit or loss and other comprehensive income range between 80% and 100%. The risk of material misstatement in the remaining balances and components not in scope was mitigated through audit procedures including testing of entity level controls, information technology general controls and group, company and component level analytical review procedures.

Independent Auditors' Report to the Members of FCE Bank plc.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement

line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

	<i>Group financial statements</i>	<i>Company financial statements</i>
Overall materiality	£14.1m (2016: £12m).	£14.5m (2016: £9.3m).
How we determined it	5% of profit before tax for the year.	5% of adjusted profit before tax for the year.
Rationale for benchmark applied	The use of 5% of profit or loss before tax is a generally accepted auditing practice for a profit oriented group. Based on the benchmarks used in the annual report, profit before tax is a key primary measure used by the shareholders in assessing the performance of the group. The approach is consistent with that used in the prior year.	The use of 5% of adjusted profit before tax is considered appropriate, as it excludes a one off gain on sale of a subsidiary and a write down of goodwill. We consider this to be a more appropriate benchmark in these circumstances.

For each component in scope for our audit, audit work was performed using an allocated materiality level that is less than our overall group and company materiality. The range of materialities allocated to individual components was between £4.5m and £13.6m.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £700,000 (Group audit) (2016: £600,000) and £725,000 (Company audit) (2016: £467,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- The directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material

misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 24, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

2017 Financial Statements

Independent Auditors' Report to the Members of FCE Bank plc.

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

We were originally appointed by the directors to audit the financial statements for the year ended 31 December 1973 and have been re-appointed in each subsequent financial period. The period of total uninterrupted engagement is 45 years, covering the years ended 31 December 1973 to 31 December 2017.

Darren Meek (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December		Group	
		2017 £ mil	2016 £ mil
	Note		
Interest income		£ 647	£ 630
Interest expense		(181)	(190)
NET INTEREST INCOME	2	£ 466	£ 440
Fees and commissions income		64	47
Fees and commissions expense		(9)	(6)
NET FEES AND COMMISSIONS INCOME	3	£ 55	£ 41
Other operating income	4	322	216
TOTAL INCOME		£ 843	£ 697
Impairment losses on loans and advances	14	(21)	(22)
Operating expenses	5	(260)	(292)
Depreciation of property and equipment	17	(292)	(203)
Fair value adjustments to financial instruments	7	56	285
Loss on foreign exchange	8	(46)	(292)
Share of profit of a joint venture	21	3	5
PROFIT BEFORE TAX		£ 283	£ 178
Income tax expense	9	(70)	(34)
PROFIT AFTER TAX AND PROFIT FOR THE PERIOD		£ 213	£ 144
Translation differences on foreign currency net investments		43	178
Translation differences on foreign currency investments in a joint venture		-	6
ITEMS THAT CAN BE RECYCLED THROUGH PROFIT AND LOSS		£ 43	£ 184
Available for sale (losses)/gains from changes in fair value		(1)	1
ITEMS THAT CANNOT BE RECYCLED THROUGH PROFIT AND LOSS		£ (1)	1
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		£ 255	£ 329

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

2017 Financial Statements

Statements of Financial Position

As at 31 December	Note	Company		Group	
		2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
ASSETS					
Cash and cash equivalents	10	£ 1,182	£ 1,314	£ 1,544	£ 1,654
Derivative financial instruments	11	332	345	334	349
Other assets	12	769	596	532	415
Net loans and advances not subject to securitisation		£ 9,123	£ 7,647	£ 9,504	£ 7,944
Net loans and advances subject to securitisation	16	7,111	6,667	7,294	6,856
Total loans and advances to customers	13	£ 16,234	£ 14,314	£ 16,798	£ 14,800
Property and equipment	17	293	252	294	252
Income taxes receivable	18	1	4	1	5
Deferred tax assets	19	73	80	78	81
Goodwill and other intangible assets	20	41	159	14	11
Investment in a joint venture	21	-	-	-	55
Investment in other entities	22	81	66	3	4
TOTAL ASSETS		£ 19,006	£ 17,130	£ 19,598	£ 17,626
LIABILITIES					
Due to banks and other financial institutions not in respect of securitisation		£ 372	£ 434	£ 508	£ 550
Due to banks and other financial institutions in respect of securitisation	16	518	611	1,569	2,188
Total due to banks and other financial institutions	23	£ 890	£ 1,045	£ 2,077	£ 2,738
Deposits	24	388	69	388	69
Due to parent and related undertakings	25	5,302	4,415	2,436	1,170
Derivative financial instruments	11	18	34	20	38
Debt securities in issue not in respect of securitisation		£ 9,229	£ 8,693	£ 9,229	£ 8,693
Debt securities in issue in respect of securitisation	16	-	-	2,248	2,080
Total Debt securities in issue	26	£ 9,229	£ 8,693	£ 11,477	£ 10,773
Other liabilities and provisions	27	330	282	347	292
Income taxes payable	18	101	45	101	46
Deferred tax liabilities	19	4	3	10	10
Subordinated loans	28	334	308	334	308
TOTAL LIABILITIES		£ 16,596	£ 14,894	£ 17,190	£ 15,444
SHAREHOLDERS' EQUITY					
Ordinary shares	29	614	614	614	614
Share premium	29	352	352	352	352
Retained earnings		1,444	1,270	1,442	1,216
TOTAL SHAREHOLDERS' EQUITY		£ 2,410	£ 2,236	£ 2,408	£ 2,182
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		£ 19,006	£ 17,130	£ 19,598	£ 17,626

The accompanying 'Notes to the consolidated financial statements' are an integral part of these financial statements. The financial statements on pages 30 to 106 were approved by the Board of Directors on 22 March 2018 and were signed on its behalf by:

Charles Bilyeu
Chief Executive Officer

Paul Kiernan
Executive Director, Finance

Statements of Cash Flows

		Company		Group	
For the year ended 31 December					
	Note	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
Cash flows from operating activities					
Cash from operating activities	42	£ (2,096)	£ (1,558)	£ (2,182)	£ (1,660)
Interest paid		(214)	(199)	(211)	(195)
Interest received		552	586	567	619
Other operating income received		354	255	343	254
Income taxes paid		(22)	(39)	(24)	(42)
Net cash used in operating activities		£ (1,426)	£ (955)	£ (1,507)	£ (1,024)
Cash flows from investing activities					
Purchase of property and equipment		(4)	(2)	(4)	(2)
Proceeds from sale of property and equipment		3	-	3	-
Investment in internally and externally generated software		(4)	(2)	(4)	(2)
Investment in other entities		(4)	6	-	-
Net cash generated (used in)/from investing activities		£ (9)	£ 2	£ (5)	£ (4)
Cash flows from financing activities					
Proceeds from the issue of debt securities and from loans provided by banks and other financial institutions		£ 9,465	£ 8,251	£ 9,523	£ 8,277
Repayments of debt securities and of loans provided by banks and other financial institutions		(9,682)	(7,711)	(9,728)	(7,768)
Proceeds of funds provided by parent and related undertakings		1,531	731	1,542	745
Repayment of funds provided by parent and related undertakings		(311)	(354)	(249)	(323)
Net (decrease) in short term borrowings		(62)	(169)	(50)	(140)
Net (decrease)/increase in deposits		319	13	319	13
Net cash inflow on derivative financial instruments		37	75	32	99
Increase in restricted cash		(67)	(58)	(67)	(97)
Decrease in restricted cash		66	20	66	49
Net cash generated from financing activities		£ 1,296	£ 798	£ 1,388	£ 855
Net cash flows		£ (139)	£ (155)	£ (124)	£ (173)
Effect of exchange rate changes on cash and cash equivalents		£ 7	£ 140	£ 14	£ 158
Net (decrease) in cash and cash equivalents	42	£ (132)	£ (15)	£ (110)	£ (15)
Cash and cash equivalents at beginning of year	42	£ 1,314	£ 1,329	£ 1,654	£ 1,669
Cash and cash equivalents at end of year	42	£ 1,182	1,314	1,544	1,654

2017 Financial Statements

Statements of Changes in Equity

Company	Share capital		Share premium		Profit or loss reserve		Trans-lation reserve		Total retained earnings		Total	
	£	mil	£	mil	£	mil	£	mil	£	mil	£ mil	
Balance at 1 January 2016	£	614	£	352	£	797	£	211	£	1,008	£	1,974
Profit for the year	£	-	£	-	£	124	£	-	£	124	£	124
Translation differences		-		-		-		158		158		158
Total comprehensive income for the year ended 31 December 2016	£	-	£	-	£	124	£	158	£	282	£	282
Dividend paid		-	£	-	£	(50)	£	-	£	(50)	£	(50)
Merger with two Polish subsidiaries		-		-		23		6		29		29
Other equity adjustments		-		-		1		-		1		1
Balance at 31 December 2016 / 1 January 2017	£	614	£	352	£	895	£	375	£	1,270	£	2,236
Profit for the year	£	-	£	-	£	163	£	-	£	163	£	163
Translation differences		-		-		-		42		42		42
Total comprehensive income for the the year ended 31 December 2017	£	-	£	-	£	163	£	42	£	205	£	205
Dividend Paid	£	-	£	-	£	(35)	£	-	£	(35)	£	(35)
Ret'd Earnings Adj IFRS 15 early adoption		-		-		5		-		5		5
Other equity adjustments		-		-		(1)		-		(1)		(1)
Balance at 31 December 2017	£	614	£	352	£	1,027	£	417	£	1,444	£	2,410

Group	Share capital		Share premium		Profit or loss reserve		Trans-lation reserve		Total retained earnings		Total	
	£	£	£	£	£	£	£	£	£	£	£	
Balance at 1 January 2016	£	614	£	352	£	725	£	211	£	936	£	1,902
Profit for the year	£	-	£	-	£	144	£	-	£	144	£	144
Translation differences		-		-		-		184		184		184
Available for sale gains in fair value		-		-		1		-		1		1
Total comprehensive income for the year ended 31 December 2016	£	-	£	-	£	145	£	184	£	329	£	329
Dividend paid		-	£	-	£	(50)	£	-	£	(50)	£	(50)
Other equity adjustments		-		-		1		-		1		1
Balance at 31 December 2016 / 1 January 2017	£	614	£	352	£	821	£	395	£	1,216	£	2,182
Profit for the year	£	-	£	-	£	213	£	-	£	213	£	213
Translation differences		-		-		-		43		43		43
Available for sale loss in fair value		-		-		-		(1)		(1)		(1)
Total comprehensive income for the the year ended 31 December 2017	£	-	£	-	£	213	£	42	£	255	£	255
Dividend Paid	£	-	£	-	£	(35)	£	-	£	(35)	£	(35)
Ret'd Earnings Adj IFRS 15 early adoption		-		-		6		-		6		6
Balance at 31 December 2017	£	614	£	352	£	1,005	£	437	£	1,442	£	2,408

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

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Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

1 ACCOUNTING POLICIES

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

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A Basis of Presentation

These financial statements are prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The standards applied are those issued by the International Accounting Standards Board and adopted by the European Union. The consolidated financial statements are prepared under a historical cost convention with the exception of certain financial assets and liabilities which are stated at fair value as disclosed under Note 39 'Financial assets and financial liabilities'.

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

- 'Company' accounts included within these consolidated financial statements comprises of FCE Bank plc. a UK registered company, and all of its 11 European branches.
- 'Group' accounts include FCE Bank plc. a UK registered company, and all of its 11 European branches and subsidiaries. Refer to Note 22 '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'.

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

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

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

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 2017

B Basis of Consolidation

(i) Subsidiaries

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

Subsidiaries are consolidated from the date on which control is transferred to the Group, and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of acquisition is measured at the fair value of the assets given up, shares issued or liabilities incurred at the date of acquisition, plus costs directly attributable to the acquisition. Intercompany transactions, balances and income and expense on transactions between companies within the Group are eliminated.

For entities purchased which were previously 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. The Company's interests in group undertakings in the Company's accounts are stated at cost less any provisions for impairment.

(ii) Structured Entities

The structured entities (SEs) utilised by the Company and which are listed within Note 22 'Investments in other entities', conduct their activities solely to meet securitisation requirements of the Company. In accordance with IFRS10 'Consolidated Financial Statements' such entities are consolidated subsidiaries within the Group's financial statements.

(iii) Joint Arrangements and Investments in other entities

Joint arrangements are those entities over whose activities FCE has joint control, established by contractual agreement. FCE has rights to the net assets of this arrangement and classify this as joint venture (JV). Interest in JV's are accounted for using the equity method of accounting. Under the equity method of accounting, the investment is initially recorded at cost and is subsequently adjusted to reflect FCE's share of the net profit or loss of the JV within 'Share of profit in a joint venture' on the statement of profit or loss.

The Company's interest in Group undertakings is stated at cost less any provisions for impairment. The Company's interest in Non-Group undertakings is stated at fair value with gains or losses recorded within other comprehensive income.

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.

An accounting estimate is considered to be critical if:

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

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

- Provision for incurred losses on loans and advances (refer to Note 14 'Provision for incurred losses')
- Vehicle residual value provisions and depreciation rates applied for vehicles subject to operating leases (refer to Note 36 'Vehicle residual values')
- Provision for tax uncertainties (refer to Note 18 'Income taxes receivable and payable').

Critical judgements applied in the financial statements are:

- Revenue recognition including prepayment rates, and estimated contract lives
- Timing and recognition of credit losses (refer to Note 14 'Provision for incurred losses' and Note 35 'Credit Risk')
- Vehicle residual value setting and depreciation rates applied for vehicles subject to operating leases (refer to Note 36 'Vehicle residual values')
- Judgements made in respective provisioning for tax and on recognition of deferred tax assets (refer to note 19)
- Consolidation of the Structured Entities (refer to note 16)

D Net interest income

Interest income and expense is recognised in the statement of profit or loss using the effective interest method.

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 contracts 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 loans and advances to customers are regarded as part of the economic return on the loan and included in the loan's carrying value and deferred. The amount deferred is recognised in net interest income, using the effective interest method, over the expected term of the related receivable.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

E Fees and commissions income and expenses

Fees and commissions income and expenses are recognised when earned or incurred, net of any taxes payable. 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. Where the income is recognised upfront and is rebatable upon cancellation, a cancellation reserve is established.

Commissions and other bonuses payable to dealers which can be directly associated with the origination of financed receivables are regarded as part of the economic return of the receivables and included as part of the receivable's carrying value. The amount deferred is recognised as a reduction to interest income using the effective interest rate method over the term of the related receivable. Commissions and other bonuses payable which cannot be directly associated with the origination of financed receivables are expensed as incurred.

F Other operating income

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

G Employee benefits

(i) Retirement benefit obligations

The most significant retirement benefit obligations to FCE relate to Ford's UK and German pension plans. Both of these countries offer final salary pension plans and are operated by Ford. The contribution payable in relation to the participation by FCE in these plans is generally 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. Therefore, in accordance with IAS 19 'Employee Benefits', FCE's accounts for such plans as defined contribution plans by recognising a cost equal to contributions payable for the period. FCE does not recognise the net liabilities or assets associated with the plans in the company or consolidated statements of financial position.

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

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

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

All costs are included within 'Operating expenses'.

(ii) Share-based payments

Under the Long Term Incentive Programme (LTIP), Restricted Stock Units (RSU) are awarded to Directors and other eligible employees of FCE. Awards of RSU vest on either a time based approach, or for senior Managers a performance based approach. Following a specified restriction period the RSU convert to shares of Ford Common Stock.

Once vested, the shares carry all associated rights including voting rights and the right to any dividend payments.

Grants awarded are measured at fair value using the closing price of Ford Common Stock on the grant date.

Time based RSU grants vest over a three year service period with one third of each grant of RSU vesting after the first anniversary of the grant date, one third after the second anniversary, and one third after the third anniversary.

Performance based RSU opportunities vest after a three year service period, and are subject to internal and external performance factors measured during this period. The numbers of shares earned is determined at the end of the three year period with a range of 0 – 200% of award based on performance.

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

Prior to revision of the long-term incentive programme during 2007, share options which can be exercised over Ford Common Stock were granted to Directors and to employees of FCE. A limited number of share options have been granted since 2007. The granting of share options was discontinued in 2015.

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

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

H Cash and cash equivalents

Cash and cash equivalents comprise balances which have a maturity at acquisition of 90 days or less including: petty cash.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

I Financial assets, financial liabilities and offsetting

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

'Financial assets at fair value through profit or loss' This category consists of cash and cash equivalents and derivative financial instruments measured at fair value using market rates and industry standard valuation models.

Changes in fair value of these assets are recognised in profit or loss.

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

'Available for sale financial assets' This category consists of an equity instrument investment held at fair value with changes in fair value recognised in other comprehensive income.

'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 statement of profit or loss.

'Financial liabilities at amortised costs' 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.

'Offsetting' FCE does not offset its financial assets and liabilities other than on an exception basis. If amounts are offset in the statement of financial position, there has to be a current enforceable legal right to set off the amounts and there must be an intention to settle on a net basis. Refer to Note 11 'Derivative financial instruments' for further details.

J Derivative financial instruments and hedging

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

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

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

The fair values of derivative instruments are disclosed in Note 11 'Derivative financial instruments'.

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

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

'Fair value hedge accounting' Changes in the fair value of derivatives that qualify and are designated as fair value hedges are recorded in the statement of profit or loss, together with changes in the fair value of the hedged item that are attributable to the hedged risk within 'Fair value adjustments to financial instruments'.

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

'Derivatives not qualifying for hedge accounting' Certain derivative transactions (referred to as non-designated in Note 11 'Derivative financial instruments'), while providing effective economic hedges under the Group's risk management policies either do not qualify for hedge accounting under the specific rules in IAS 39 'Financial instruments, recognition and measurement' or FCE elects not to apply hedge accounting. These derivatives are held at fair value and fair value gains and losses are reported in the statement of profit or loss within 'Fair value adjustments to financial instruments'.

K Other assets

The carrying value of 'Other assets' is stated at cost less any provision for impairment. Vehicles returned to FCE from operating lease, retail and finance leases which are awaiting resale are recorded at the lower of their carrying amount or fair value less costs to sell. Vehicles consigned to dealers on consignment financing arrangements are disclosed in Note 12 'Other assets'.

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

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

L Loans and advances to customers

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

M Provision for incurred losses

A provision for incurred losses is made against loans and advances and operating lease assets to cover bad debts and impairments which have been incurred and not separately identified, but which are known from experience to be present in FCE's portfolios of loans and advances and operating leases. Loan assets with similar credit characteristics are grouped together and evaluated for impairment on a collective basis, based on a number of factors including historical loss trends, the credit quality of the present portfolio and general economic factors.

A provision is also established when FCE considers the credit-worthiness of an individual borrower or lessee has deteriorated such that the recovery of the whole or part of an outstanding advance or group of loan assets is in doubt. The provision takes into consideration the financial condition of the borrower or lessee, the value of the collateral, recourse to guarantors and other factors.

The criteria that FCE uses to determine that there is objective evidence that an impairment has occurred include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral.

The provision for incurred losses comprises the brought forward balance at the beginning of the period, adjusted by evaluations made during the period, less 'Net losses' recognised and includes exchange adjustments relating to foreign currency translation. 'Net losses' comprises of loans that have been impaired, less any subsequent recoveries of bad debts which had previously been written down.

The provision for incurred losses relating to loans and advances to customers is deducted from loans and advances to customers and is included in the statement of profit or loss within 'Impairment losses on loans and advances'. The provision for incurred losses relating to operating lease assets is presented as an adjustment to accumulated

depreciation and is included in the statement of profit or loss within 'Depreciation of property and equipment'.

At the point a retail financing contract is considered to be impaired, the carrying value of the loan (both 'Gross' and 'Net' as reported in Note 13 'Loans and advances to customers') is reduced to reflect the average recovery value. Following vehicle recovery and prior to vehicle resale, the carrying value of the loan is eliminated and the vehicle is recorded in Note 12 'Other assets' at the estimated realisable value net of disposal costs. Any further recoveries for contracts previously charged off as uncollectible are written back to 'Provision for incurred losses'.

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

Retail and wholesale loans whose terms have been renegotiated in the normal course of business are considered for objective evidence of whether or not impairment loss has occurred.

N Provision for vehicle residual value losses

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

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

O Securitisation and related financing

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

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

P Property and equipment

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

Asset type	Annual Depreciation Rate
Computer equipment	16.67%
Other office equipment	8.00%
Company motor vehicles	25.00%

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

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

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

Q Leases

(i) Where FCE is the lessor:

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

Operating leases – Assets leased to customers under operating leases are included in 'Property and equipment'. Income recognised in the statement of profit or loss is described in accounting policy F Other operating income.

(ii) Where FCE is the lessee:

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

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

R Deferred and current income taxes

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is recognised in the 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.

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

S Income tax related interest

FCE recognises income tax related interest consistent with the recognition thresholds of the underlying tax in accordance with IAS 12 and accounts for interest related to income tax as expense in the statement of profit or loss (included in Profit before taxes).

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

T Goodwill and other intangible assets

'Goodwill' is not amortised, but is tested for impairment annually or more frequently if events or circumstances indicate the assets may be impaired. We test for impairment by assessing qualitative factors to determine whether it is more likely than not that the fair value of the goodwill is less than its carrying amount. If the qualitative assessment indicates a possible impairment, the carrying value of the asset or reporting unit is compared with its fair value. At each statement of financial position date goodwill is tested for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

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

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

U Debt

Debt, which primarily comprises amounts due to banks and other financial institutions, deposits, debt securities in issue and subordinated loans, is initially stated at fair value net of transaction costs incurred. Foreign currency debt obligations are translated into sterling at the exchange rates ruling at the reporting date and gains and losses are recorded within 'Loss on foreign exchange' on the Statement of profit or loss.

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

Debt that is designated as part of a fair value hedging relationship is adjusted to reflect changes in fair value attributable to the risk being hedged and the gains and losses are recognised in the statement of profit or loss within 'fair value adjustments to financial instruments'.

Certain transaction costs which can be directly associated to debt issuance 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.

V Other liabilities and provisions

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

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

For the purposes of measurement of uncertain tax positions, FCE's unit of measure is by tax authority. 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.

W Dividends

Dividends declared but not paid are included within the statement of financial position within 'amounts due to parent and related undertakings'. To declare a dividend the following criteria must be met: (i) Directors propose a dividend and (ii) Annual General Meeting approves the proposal, at which point the dividends become formally declared. Dividends declared following the reporting date are disclosed as a non-adjusting event after the reporting period.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

X Financial guarantees

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

Y Segment reporting

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

For the purpose of these financial statements and in accordance with IFRS 8 'Operating segments' FCE's reportable operating segments are based around a business unit structure grouped into the various geographic locations of its operations. Segments considered as major geographic markets are reported individually in note 41.

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

- Central staff costs are analysed by department and type of cost and allocated to the location benefiting from the service. Various allocation methods are used that ensure an equitable allocation between locations of central staff costs.
- In certain of FCE's European branches and subsidiaries funding is obtained by a mixture of local and centrally allocated funding. The costs of central funding, including derivative costs are, where possible, directly allocated to locations where transactions can be specifically identified.

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

Z Accounting Standards development - IFRS

All of the annual improvements 2014-2017 are mandatory for the financial year beginning 1 January 2017 but are either not relevant or do not have a material impact on FCE's consolidated financial statements.

IFRS 15 'Revenue from Contracts with Customers'

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The effective date was subsequently deferred from January 2017 to January 2018, however, FCE elected to early adopt IFRS 15 effective 1 January 2017.

Under the new standard, FCE typically recognises insurance sales commissions at the time of sale of the product or service to the customer. Previously, in some instances, this income would have been deferred and recognised over the life of the related receivable.

FCE recognised the cumulative effect of initially applying the standard of £9 million as an increase to the opening balance of 'Retained earnings' and a corresponding decrease across 'Loans and advances to customers' and 'Other assets'.

The following are new accounting standards issued by International Accounting Standard Boards that will be effective after 2017.

(i) IFRS 9 'Financial Instruments'

In July 2014, the IASB issued the final version of IFRS 9 which includes the completion of all phases of the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The effective date is 1 January 2018. There are three elements to this standard:

Classification and Measurement of Financial Assets and Financial Liabilities

Financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics, considering whether the cash flows are consistent with a basic financing/lending arrangement. We anticipate that the majority of FCE's financial assets will continue to be classified as being held at amortised cost. There will be no impact to the carrying amounts reflected in the 2018 financial statements.

Impairment

IFRS 9 introduces an expected credit loss impairment model that differs significantly from the incurred loss model under IAS39. Under IFRS 9, credit loss allowances will be measured on each reporting date according to a three-stage expected credit loss impairment model:

- Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring over the next 12 months.
- Stage 2 – Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognized equal to the credit losses expected over the remaining lifetime of the asset.
- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to full lifetime expected credit losses will be recognized. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

Expected losses must be calculated for financial assets, and committed financing. Significant changes in credit risk can be evaluated using both qualitative and quantitative criteria.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

When required the IFRS 9 calculation has leveraged existing models to generate key input parameters for the expected loss estimation, being Probability of Default, Loss Given Default and Exposure at Default; and includes more forward looking information into the models. For the more subjective elements in the new standard (e.g. the weighting of the economic scenarios) impact assessment capabilities have been developed.

The effect of applying IFRS 9 is a £17 million reduction in the loan loss provision, resulting in an increase in the January 2018 opening balance of retained earnings of £12 million (net of tax). The ongoing impact on the financial results will become clearer over a period of time and under different economic conditions, we are also expecting an increased volatility in our reserve levels.

Hedge Accounting

These requirements align hedge accounting more closely with risk management and establish a more principles-based approach to hedge accounting.

Entities can choose between applying the hedge accounting requirements of IFRS 9 or to continue to apply the existing

hedge accounting requirements in IAS 39. We have elected to continue using the existing IAS 39 methodology.

ii) IFRS 16 'Leases'

This standard was issued in January 2016 to replace IAS 17 'Leases'. For a lessee IFRS 16 eliminates the classification of leases as either operating lease or finance lease and will require recognition of an asset and a liability for most leases. Lessors continue to classify leases as operating or finance with the approach to accounting substantially unchanged from IAS 17. The Group may have to recognise right of use of certain operating lease arrangements and corresponding liability on its financial statements. The effective date is 1 January 2019. The group is currently working on the implementation.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

2 NET INTEREST INCOME

For the year ended 31 December		Group	
		2017 £ mil	2016 £ mil
	Note		
Interest income			
Interest income from loans and advances to external parties		£ 300	£ 328
Interest income from related parties	40	343	298
Interest income adjustment relating to residual values	15	2	1
Cash and short term deposit income from external parties and other miscellaneous income		2	3
Total interest income		£ 647	£ 630
Interest expense			
Interest expense to external parties		£ (159)	£ (173)
Interest expense to related parties	40	(22)	(17)
Total interest expense		£ (181)	£ (190)
Net interest income		£ 466	£ 440

Interest earned on most retail loans and advances 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.

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

'Interest income from related parties' primarily relates to interest supplements relating to loans and advances and wholesale receivables income with entities that are reported as consolidated entities of Ford and include Ford wholly owned dealers.

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

'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 Note 25 'Due to parent and related undertakings' and Note 28 'Subordinated loans'.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

3 NET FEES AND COMMISSION INCOME

For the year ended 31 December	Group	
	2017 £ mil	2016 £ mil
Fees and commissions income		
Finance related and other fee income	£ 29	£ 23
Insurance sales commission income	35	24
Total fees and commissions income	£ 64	47
Fees and commissions expense		
Finance related and other fee expense	£ (9)	£ (6)
Total fees and commission expense	£ (9)	£ (6)
Net fee and commissions income	£ 55	£ 41

'Finance related and other fee income' relates to other fees earned which cannot be directly associated with the origination of the finance receivables. 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. The preferred third party business partner in each market is responsible for financing, maintenance, repair services and the resale of vehicles at the end of the lease period.

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

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

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

4 OTHER OPERATING INCOME

For the year ended 31 December	Group	
	2017 £ mil	2016 £ mil
Income from operating leases	£ 303	£ 213
Other operating income	19	3
Total other operating income	£ 322	£ 216

'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 17 'Property and equipment'.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

5 OPERATING EXPENSES

For the year ended 31 December	Note	Group	
		2017 £ mil	2016 £ mil
Staff costs:			
Wages and salaries		£ 112	£ 108
Social security contributions		14	12
Retirement benefits	31	22	81
Total staff costs		£ 148	£ 201
Other expenses:			
Software amortisation	20	£ 2	£ 2
Administrative expenses		98	76
Operating lease rental expense		5	6
Other expenses		7	7
Total other expenses		£ 112	£ 91
Total operating expenses		£ 260	£ 292
Number of employees			
Monthly average number of permanent employees during the year		1,746	1,699

'Administrative expenses' include amount paid to Ford and its related companies for services received which are detailed within Note 40 'Related party transactions'. It also includes Auditor Remuneration, details of which are shown over page.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

5 OPERATING EXPENSES continued

Auditor Remuneration

For the year ended 31 December	Company		Group	
	2017 £ 000's	2016 £ 000's	2017 £ 000's	2016 £ 000's
Nature of services:				
Audit services				
Audit of parent company and consolidated accounts	£ 2,080	£ 1,609	£ 2,080	£ 1,609
Audit of subsidiaries and SEs pursuant to legislation	-	-	288	296
Total audit services	£ 2,080	£ 1,609	£ 2,368	£ 1,905
Assurance services				
Other assurance services	£ 316	£ 551	£ 316	£ 551
Total assurance services	£ 316	£ 551	£ 316	£ 551
Non audit services				
Tax compliance services	£ 54	£ 305	£ 54	£ 327
Other services	-	83	-	83
Total non audit services	£ 54	£ 388	£ 54	£ 410
Total fees	£ 2,450	£ 2,548	£ 2,738	£ 2,866

Definition of services:

'Audit of parent company and consolidated accounts'

relates to audit of the annual financial statements of the Company and the Group and the audit of the groups corporate consolidation.

'Audit of subsidiaries and SEs pursuant to legislation'

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

'Other assurance services' relates mainly to securitisation, launch of customer deposits in the UK and debt offerings.

'Tax compliance services' relates to tax compliance support in relation to tax returns and transfer pricing documentation.

'Other services' relates to various advisory services including assistance provided concerning financial accounting and reporting standards.

For further details on the policies and procedures that govern the engagement of PwC, please refer to the Audit Committee report on page 22.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

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 six 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 - Committees of the Board' on page 20.

Company	2017			2016		
	Directors £000's	Officers £000's	Total £000's	Directors £000's	Officers £000's	Total £000's
Loans						
Loans outstanding at 1 January	£ 153	£ 163	£ 316	£ 122	£ 156	£ 278
Loans issued in the year	314	553	867	345	527	872
Loan repayments during the year	(317)	(504)	(821)	(314)	(520)	(834)
Loans outstanding at 31 December	£ 150	£ 212	£ 362	£ 153	£ 163	£ 316
Maximum loans in period	£ 160	£ 223	£ 383	£ 152	£ 198	£ 350
Revenue						
Interest revenue from loans	£ 6	£ 8	£ 14	£ 6	£ 8	£ 14
Remuneration payments						
Salaries/other short-term benefits	£ 1,755	£ 1,072	£ 2,827	£ 1,383	£ 1,432	£ 2,815
Post-employment benefits	98	37	135	79	48	127
Share based payments	146	126	272	126	110	236
Total remuneration payments	£ 1,999	£ 1,235	£ 3,234	£ 1,588	£ 1,590	£ 3,178
Customer Deposits						
Deposits during the year	£ 43	£ 93	£ 136	£ -	£ -	£ -
Customer Deposits at 31 December	£ 43	£ 93	£ 136	£ -	£ -	£ -

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 was one termination payment made in 2017 to one Director of £278,763.

Post-employment benefits: Retirement benefits are accruing to three current Directors and five current Officers (2016: three Directors and five Officers) under various Ford retirement benefit schemes.

Share Based Payments: During the financial year ended 31 December 2017 no Director or Officer exercised their share options held over Ford Common Stock.

Shares were receivable under a Long Term Incentive scheme by four current Directors and six current Officers in 2017.

Aggregate emoluments for the highest paid Director were £628,844 (2016: £408,762).

The highest paid Director in 2017 was a member of the FMCL Pension Scheme for Senior Staff. The projected annual benefit at age 65 for the highest paid Director as 31 December 2017 was £143,778. Employer contributions made to the pension of the highest paid Director during 2017 totalled £46,373. The pension scheme allows for some of the annual pension benefit to be commuted to a lump sum payment on retirement. The maximum projected lump sum available at age 65 for the highest paid Director in 2017 was £594,754 together with a reduced pension of £89,213.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

6 TRANSACTIONS WITH DIRECTORS AND OFFICERS Continued

The highest paid Director in 2016 was a member of the Ford (US) General Retirement Plan (GRP) and comparison between the two pension schemes could be misleading due to their different features and structures. The GRP is a defined benefit plan and does not allow for an accrued lump

sum. No employer contributions or annual interest payment were made to the GRP in 2016 for the highest paid director. The projected accrued annual benefit at age 65 for the highest paid director in 2016 was £57,695.

7 FAIR VALUE ADJUSTMENTS TO FINANCIAL INSTRUMENTS

For the year ended 31 December	Group	
	2017 £ mil	2016 £ mil
Designated fair value hedges		
Ineffectiveness on interest rate hedges	£ -	£ (1)
Foreign exchange revaluation on accrued interest	1	2
Total designated fair value hedges	£ 1	£ 1
Non-designated derivatives		
Interest rate swaps	£ 11	£ (9)
Cross currency interest rate swaps	44	270
Foreign exchange forwards	-	23
Total non-designated derivatives	£ 55	£ 284
Total net gains recognised in the income statement	£ 56	£ 285

The table above analyses by type of contract, the fair value adjustments recognised in the statement of profit or loss within 'Fair value adjustments to financial instruments'.

All derivatives are entered into by FCE for the purpose of matching or minimising risk. For further information on derivative usage, policies and controls refer to Note 37 'Market risk'.

'Ineffectiveness on interest rate hedges' reflects the net change in fair value of the hedging instruments of £43 million gain (2016: £54 million gain), and change in value on hedged debt of £43 million loss (2016: £55 million loss).

The fair value adjustments for foreign exchange derivatives are partially offset by the loss on foreign exchange as explained in Note 8 'Gain/(loss) on foreign exchange'. For interest rate risk management, FCE uses interest rate swaps to match the re-pricing characteristics of its receivables to its debt.

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

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

8 GAIN/(LOSS) ON FOREIGN EXCHANGE

For the year ended 31 December	Group	
	2017 £ mil	2016 £ mil
Foreign currency debt obligations	£ (47)	£ (295)
Other foreign currency assets and liabilities	1	3
Total loss on foreign exchange	£ (46)	£ (292)

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

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

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

Consequently the losses on 'foreign currency debt obligations' of £47 million (2016: £295 million) is partially offset by fair value gains on cross currency interest rate swaps and foreign exchange forwards as detailed in Note 7 'Fair value adjustments to financial instruments'.

Refer to Note 37 'Market risk' for further information on FCE's use of derivatives.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

9 INCOME TAX EXPENSE

For the year ended 31 December	Group	
	2017 £ mil	2016 £ mil
Current tax:		
UK Corporation tax of 19.25% (previously 20.00%)	£ 33	£ 30
Overseas taxation	32	37
Relief of overseas taxation	-	(7)
Adjustment to prior year corporation tax	2	2
Income tax expense current	£ 67	£ 62
Deferred tax:		
Current year	£ 2	£ (24)
Prior year	1	(4)
Income tax expense deferred	£ 3	£ (28)
Income tax expense	£ 70	£ 34

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

For the year ended 31 December	Group	
	2017 £ mil	2016 £ mil
Profit before tax	£ 283	£ 178
Profit multiplied by standard rate of UK Corporation tax of 19.25% (2016: 20.00%)	£ 55	£ 36
Effects of:		
Foreign taxes higher / (lower) than UK taxes	£ 10	£ 4
Prior year current and deferred tax	3	(2)
UK tax rate changes for deferred tax	-	1
Non taxable UK income	(2)	
Deferred tax not recognised following foreign branch exemption election	-	(8)
Expenses not deductible	4	3
Income tax expense	£ 70	£ 34

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

10 CASH AND CASH EQUIVALENTS

As at 31 December	Company		Group	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
Cash in bank	£ 614	£ 838	£ 643	£ 858
Cash equivalents	568	476	568	476
Cash and cash equivalents	£ 1,182	£ 1,314	£ 1,211	£ 1,334
Other bank deposits	£ -	£ -	£ 170	£ 165
Collateralised deposits	-	-	163	155
Cash associated with securitisation transactions	£ -	£ -	£ 333	£ 320
Total cash and cash equivalents	£ 1,182	£ 1,314	£ 1,544	£ 1,654
Analysis of cash and cash equivalents:				
Operational cash	£ 110	£ 109	£ 139	£ 129
Cash and cash equivalents held centrally	1,072	1,205	1,072	1,205
Other cash	-	-	333	320
Total cash and cash equivalents	£ 1,182	£ 1,314	£ 1,544	£ 1,654
Current	£ 1,182	£ 1,314	£ 1,544	£ 1,654
Non current	-	-	-	-
Total	£ 1,182	£ 1,314	£ 1,544	£ 1,654

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

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

'Cash associated with securitisation transactions' includes both amounts retained in the Company and balances held by and available to consolidated SEs. The amount included in the note is not available for use in FCE's day to day operations.

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

'Cash and cash equivalents held centrally' represents cash and investments held as additional liquidity in excess of immediate funding requirements.

'Other Cash' represents cash associated with securitisation transactions.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

11 DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December Company	2017			2016		
	Notional Amount £ mil	Fair Values		Notional Amount £ mil	Fair Values	
		Assets £ mil	Liabilities £ mil		Assets £ mil	Liabilities £ mil
Designated as fair value hedges						
Interest rate swaps	£ 3,828	£ 75	£ -	£ 5,619	£ 151	£ -
Total designated as fair value hedges	£ 3,828	£ 75	£ -	£ 5,619	£ 151	£ -
Non-designated derivatives						
Interest rate swaps	£ 13,445	£ 43	£ 17	£ 9,722	£ 17	£ 31
Cross currency interest rate swaps	1,346	214	-	1,346	170	-
Foreign exchange forwards	309	-	1	484	7	3
Total non-designated derivatives	£ 15,100	£ 257	£ 18	£ 11,552	£ 194	£ 34
Total derivatives	£ 18,928	£ 332	£ 18	£ 17,171	£ 345	£ 34
Total derivatives not subject to central clearing	£ 12,716	£ 317	£ 14	£ 14,915	£ 331	£ 32
Total derivatives subject to central clearing (a)	6,212	15	4	2,256	14	2
Total derivatives	£ 18,928	£ 332	£ 18	£ 17,171	£ 345	£ 34
Current		£ 131	£ 11		£ 55	£ 21
Non current		201	7		290	13
Total		£ 332	£ 18		£ 345	£ 34

Company	2017		2016	
	Assets £ mil	Liabilities £ mil	Assets £ mil	Liabilities £ mil
Gross derivatives amount recognised in the statement of financial position	£ 332	£ 18	£ 345	£ 34
Gross derivatives amount not offset in the statement of financial position that are eligible for offsetting	(10)	(10)	(23)	(23)
Net Amounts	£ 322	£ 8	£ 322	£ 11

a) As at 31 December 2017 FCE held collateral £11m (2016: £12m), and posted collateral of £27m (2016: £10m)

The above tables analyse the derivative financial instruments by type of contract, giving the underlying notional amount and estimated related fair value.

The fair values are included in both assets and liabilities sections of the balance sheet within 'Derivative financial instruments'.

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

All derivatives entered into by FCE are for the purpose of matching or minimising risk from potential movements in foreign exchange rates and/or interest rates inherent in FCE's financial assets and liabilities. All designated hedges are utilised to manage interest rate risk. For further information in regard to derivative usage, policies and controls refer to Note 37 'Market risk'.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

11 DERIVATIVE FINANCIAL INSTRUMENTS continued

As at 31 December Group	2017			2016		
	Notional Amount £ mil	Fair Values Assets £ mil	Liabilities £ mil	Notional Amount £ mil	Fair Values Assets £ mil	Liabilities £ mil
Designated as fair value hedges						
Interest rate swaps	£ 3,828	£ 75	£ -	£ 5,619	£ 151	£ -
Total designated as fair value hedges	£ 3,828	£ 75	£ -	£ 5,619	£ 151	£ -
Non-designated derivatives						
Interest rate swaps	£ 17,079	£ 45	£ 19	£ 13,140	£ 21	£ 35
Cross currency interest rate swaps	1,346	214	-	1,346	170	-
Foreign exchange forwards	309	-	1	484	7	3
Total non-designated derivatives	£ 18,734	£ 259	£ 20	£ 14,970	£ 198	£ 38
Total derivatives	£ 22,562	£ 334	£ 20	£ 20,589	£ 349	£ 38
Total derivatives not subject to central clearing	£ 16,350	£ 319	£ 16	£ 18,333	£ 335	£ 36
Total derivatives subject to central clearing (a)	6,212	15	4	2,256	14	2
Total derivatives	£ 22,562	£ 334	£ 20	£ 20,589	£ 349	£ 38
Current		£ 130	£ 12		£ 55	£ 24
Non current		204	8		294	14
Total		£ 334	£ 20		£ 349	£ 38

Group	2017		2016	
	Assets £ mil	Liabilities £ mil	Assets £ mil	Liabilities £ mil
Gross derivatives amount recognised in the statement of financial position	£ 334	£ 20	£ 349	£ 38
Gross derivatives amount not offset in the statement of financial position that are eligible for offsetting	(10)	(10)	(23)	(23)
Net amounts	£ 324	£ 10	£ 326	£ 15

a) As at 31 December 2017 FCE held collateral £11m (2016: £12m), and posted collateral of £27m (2016: £10m)

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

12 OTHER ASSETS

As at 31 December	Notes	Company		Group	
		2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
Short term receivables					
Related parties	40	£ 148	£ 81	£ 153	£ 83
External		99	54	104	56
Subsidiary undertakings	40	50	55	-	-
Sub-total short term receivable		£ 297	£ 190	£ 257	£ 139
Loans receivable					
Subsidiary undertakings	40	£ 197	£ 130	£ -	£ -
Sub-total loans receivable		£ 197	£ 130	£ -	£ -
Vehicles awaiting resale		146	153	146	154
Restricted cash		90	88	90	88
Prepayments and accrued income		12	10	12	10
Prepaid taxes and related interest		27	24	27	24
Total other assets		£ 769	£ 596	£ 532	£ 415
Current		£ 678	£ 507	£ 441	£ 326
Non current		91	89	91	89
Total other assets		£ 769	£ 596	£ 532	£ 415

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

13 LOANS AND ADVANCES TO CUSTOMERS

As at 31 December	Note	Company		Group	
		2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
Loans and advances to customers					
Retail excluding finance lease		£ 9,260	£ 8,087	£ 9,296	£ 8,117
Finance lease		1,313	1,036	1,629	1,329
Wholesale excluding other		6,317	5,786	6,551	5,970
Other		13	17	13	17
Gross loans and advances to customers		£ 16,903	£ 14,926	£ 17,489	£ 15,433
Unearned finance income		£ (526)	£ (505)	£ (544)	£ (524)
Provision for incurred losses	14	(44)	(41)	(44)	(42)
Provision for vehicle residual value losses	15	(3)	(5)	(3)	(5)
Unearned interest supplements from related parties		(265)	(201)	(272)	(205)
Net deferred loan origination costs		169	140	172	143
Net loans and advances to customers		£ 16,234	£ 14,314	£ 16,798	£ 14,800
Current		£ 8,765	£ 7,697	£ 9,064	£ 7,957
Non current		7,469	6,617	7,734	6,843
Net loans and advances to customers		£ 16,234	£ 14,314	£ 16,798	£ 14,800
Analysis of net loans and advances:					
Retail		£ 9,907	£ 8,515	£ 10,237	£ 8,817
Wholesale		6,327	5,799	6,561	5,983
Net loans and advances to customers		£ 16,234	£ 14,314	£ 16,798	£ 14,800
Net loans not subject to securitisation		£ 9,123	£ 7,647	£ 9,504	£ 7,944
Net loans subject to securitisation	16	7,111	6,667	7,294	6,856
Net loans and advances to customers		£ 16,234	£ 14,314	£ 16,798	£ 14,800

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

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

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

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

13 LOANS AND ADVANCES TO CUSTOMERS continued

Loans and advances to customers include the following finance lease receivables:

As at 31 December	Company		Group	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
Gross finance leases				
Within 1 year	£ 399	£ 339	£ 508	£ 435
After 1 year and within 5 years	914	697	1,121	894
After 5 years	-	-	-	-
Total gross finance leases	£ 1,313	£ 1,036	£ 1,629	£ 1,329
Unearned finance income on finance leases	£ (73)	£ (63)	£ (89)	£ (80)
Provision for incurred losses on finance leases	(3)	(3)	(3)	(3)
Provision for finance lease vehicle residual value losses	-	-	-	-
Unearned interest supplements from related parties on finance leases	(37)	(28)	(44)	(31)
Net deferred finance lease origination costs	22	15	24	18
Net investment in finance leases	£ 1,222	£ 957	£ 1,517	£ 1,233
Within 1 year	£ 372	£ 313	£ 473	£ 404
After 1 year and within 5 years	850	644	1,044	829
After 5 years	-	-	-	-
Total net investment in finance leases	£ 1,222	£ 957	£ 1,517	£ 1,233

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

14 PROVISION FOR INCURRED LOSSES

Statement of Financial Position	Note	Company		Group	
		2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
Retail					
Beginning of Year Balance		£ 37	£ 29	£ 38	£ 30
Write Offs		(39)	(31)	(40)	(31)
Recoveries		21	15	21	15
Provision for credit losses		21	20	21	20
FX movement		1	4	1	4
End of Period Balance		£ 41	£ 37	£ 41	£ 38
Wholesale					
Beginning of Year Balance		£ 4	£ 2	£ 4	£ 2
Write Offs		(1)	(1)	(1)	(1)
Recoveries		-	1	-	1
Provision for credit losses		-	2	-	2
FX movement		-	-	-	-
End of Period Balance		£ 3	£ 4	£ 3	£ 4
Total					
Beginning of Year Balance		£ 41	£ 31	£ 42	£ 32
Write Offs *		(40)	(32)	(41)	(32)
Recoveries *		21	16	21	16
Provision for credit losses		21	22	21	22
FX movement		1	4	1	4
End of Period Balance	13	£ 44	£ 41	£ 44	£ 42
Analysis of provision for Incurred Losses:					
Specific impairment allowance		£ 1	£ 1	£ 1	£ 1
Collective impairment allowance		43	40	43	41
Total impairment allowance	13	£ 44	£ 41	£ 44	£ 42

* Total write offs less recoveries equals net credit losses as used to calculate the credit loss ratio introduced on page 14.

The total provision for incurred losses, as detailed above is taken to the statement of profit or loss and other comprehensive income and is reported as impairment losses on loans and advances.

For further details on retail delinquency trends and wholesale risk ratings refer to Note 35 'Credit Risk'.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

15 PROVISION FOR VEHICLE RESIDUAL VALUE LOSSES

	Note	Company		Group	
		2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
Beginning of year balance		£ 5	£ 9	£ 5	£ 9
Residual value losses provision released to the income statement		£ (2)	£ (1)	£ (2)	£ (1)
Residual value losses incurred in the period		-	(3)	-	(3)
End of year balance	13	£ 3	£ 5	£ 3	£ 5

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

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

16 SECURITISATION AND RELATED FINANCING

Group	Note	Wholesale		Retail		Total		Total
		Public £ mil	Private £ mil	Public £ mil	Private £ mil	Public £ mil	Private £ mil	
As at 31 December 2017								
Loans and advances subject to securitisation	13	£ -	£ 2,465	£ 2,623	£ 2,206	£ 2,623	£ 4,671	£ 7,294
Due to banks and other financial institutions	23	£ -	£ 372	£ -	£ 1,197	£ -	£ 1,569	£ 1,569
Debt securities in issue	26	-	-	2,248	-	2,248	-	2,248
Related debt		£ -	£ 372	£ 2,248	£ 1,197	£ 2,248	£ 1,569	£ 3,817
As at 31 December 2016								
Loans and advances subject to securitisation	13	£ -	£ 2,756	£ 2,383	£ 1,717	£ 2,383	£ 4,473	£ 6,856
Due to banks and other financial institutions	23	£ -	£ 1,015	£ -	£ 1,173	£ -	£ 2,188	£ 2,188
Debt securities in issue	26	-	-	2,080	-	2,080	-	2,080
Related debt		£ -	£ 1,015	£ 2,080	£ 1,173	£ 2,080	£ 2,188	£ 4,268

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

The table above summarises the balances relating to these programmes. The difference between 'Loans and advances subject to securitisation' and 'Related debt' reflects the Company's retained interests, not including cash associated with the securitisation transactions.

Retained interests

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

The Company retains credit risk in securitisation transactions through its junior retained interests which provide various forms of credit enhancements. These include over-collateralisation, segregated cash reserve funds, subordinated securities, and excess spread. By providing these enhancements, FCE has entered into transfers (as described in IAS 39 'Financial Instruments Recognition and Measurement') that do not qualify for de-recognition of the underlying assets. FCE therefore continues to recognise the carrying value of all securitised assets within its balance sheet. For regulatory reporting, these assets are also

reported as encumbered. Further details on FCE's asset encumbrance can be seen in 'Pillar 3 Disclosures', which starts on page 107.

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 2017 of £333 million (31 December 2016: £320 million) is included in FCE's statement of financial position within '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.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

16 SECURITISATION AND RELATED FINANCING continued

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 fair value of the transferred assets that are not derecognised and fair value of the associated liabilities as per IFRS7.

As at 31 December 2017	Carrying Amount £ mil	Fair Value £ mil
Loans and advances subject to securitisation	£ 7,294	£ 7,391
Related debt	3,817	3,812

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 2017	£ 2,620
Committed capacity matured in 2017	(1,905)
Committed capacity renewed and added in 2017	1,384
Capacity net increase action	90
Exchange adjustments	42
Balance at 31 December 2017	£ 2,231

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 2017 totalled £2.2 billion of committed capacity (£2.6 billion at 31 December 2016) of which £1.9 billion matures during 2018 and the remaining balance having a maturity date of 2020. At 31 December 2017, £1 billion (£2.1 billion at 31 December 2016) 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 2017

17 PROPERTY AND EQUIPMENT

	Company				Group			
	Leasehold improvements £ mil	Office Equipment £ mil	Motor Vehicles £ mil	Total £ mil	Leasehold improvements £ mil	Office Equipment £ mil	Motor Vehicles £ mil	Total £ mil
Cost								
At 1 January 2016	£ 2	5	203	210	£ 2	5	204	211
Additions	-	-	648	648	-	-	648	648
Disposals	-	(1)	(611)	(612)	-	(1)	(611)	(612)
Translation adjustment	-	1	62	63	-	1	62	63
At 31 December 2016/ 1 January 2017	£ 2	£ 5	£ 302	£ 309	£ 2	£ 5	£ 303	£ 310
Additions	-	1	831	832	-	1	831	832
Disposals	-	(2)	(785)	(787)	-	(2)	(785)	(787)
Translation adjustment	-	-	17	17	-	-	17	17
At 31 December 2017	£ 2	£ 4	£ 365	£ 371	£ 2	£ 4	£ 366	£ 372
Depreciation								
At 1 January 2016	£ 2	3	30	35	£ 2	3	30	35
Charge for the year	-	-	203	203	-	-	203	203
Adjustment on returned vehicles	-	-	(30)	(30)	-	-	(30)	(30)
Disposals	-	-	(162)	(162)	-	-	(162)	(162)
Translation adjustment	-	1	10	11	-	1	11	12
At 31 December 2016/ 1 January 2017	£ 2	£ 4	£ 51	£ 57	£ 2	£ 4	£ 52	£ 58
Charge for the year	-	1	291	292	-	1	291	292
Adjustment on returned vehicles	-	-	(43)	(43)	-	-	(43)	(43)
Disposals	-	(2)	(230)	(232)	-	(2)	(230)	(232)
Translation adjustment	-	-	4	4	-	-	3	3
At 31 December 2017	£ 2	£ 3	£ 73	£ 78	£ 2	£ 3	£ 73	£ 78
Net book value at 31 December 2016	£ -	£ 1	£ 251	£ 252	£ -	£ 1	£ 251	£ 252
Net book value at 31 December 2017	£ -	£ 1	£ 292	£ 293	£ -	£ 1	£ 293	£ 294

	Company		Group	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
As at 31 December				
Analysis of property and equipment				
Current	£ 289	£ 246	£ 289	£ 246
Non current	4	6	5	6
Total	£ 293	£ 252	£ 294	£ 252

	Company		Group	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
As at 31 December				
Operating leases				
Cost	£ 362	£ 297	£ 362	£ 297
Accumulated depreciation	(73)	(51)	(73)	(51)
Total	£ 289	£ 246	£ 289	£ 246

All operating leases fall due within one year.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

18 INCOME TAXES RECEIVABLE AND PAYABLE

As at 31 December	Company		Group	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
UK taxation	£ -	£ -	£ -	£ -
Overseas taxation	1	4	1	5
Income taxes receivable	£ 1	£ 4	£ 1	£ 5
UK taxation	£ 50	£ 9	£ 50	£ 9
Overseas taxation	51	36	51	37
Income taxes payable	£ 101	£ 45	£ 101	£ 46
Net income taxes receivable / payable	£ (100)	£ (41)	£ (100)	£ (41)
Current	£ (100)	£ (41)	£ (100)	£ (41)
Non current	-	-	-	-
Total	£ (100)	£ (41)	£ (100)	£ (41)

19 DEFERRED TAX ASSETS AND LIABILITIES

	Company		Group	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
At 1 January asset	£ 77	£ 44	£ 71	£ 39
Early Adoption of IFRS 15	(3)	-	(3)	-
Income statement (charge) /credit	(8)	30	(3)	28
Transfers	-	(1)	-	-
Foreign currency translation adjustment	3	4	3	4
At 31 December asset	£ 69	£ 77	£ 68	£ 71

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

19 DEFERRED TAX ASSETS AND LIABILITIES continued

	Company		Group	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
As at 31 December				
Deferred income tax asset				
Accelerated tax depreciation	£ 19	£ 21	£ 18	£ 21
Tax losses	24	24	29	24
Loss reserves and other temporary differences	30	35	31	36
Deferred income tax asset	£ 73	£ 80	£ 78	£ 81
Deferred income tax liability				
Accelerated tax depreciation	£ (1)	£ (2)	£ (1)	£ (2)
Tax losses	-	-	-	-
Loss reserves and other temporary differences	(3)	(1)	(9)	(8)
Deferred income tax liability	£ (4)	£ (3)	£ (10)	£ (10)
At 31 December asset	£ 69	£ 77	£ 68	£ 71

Deferred tax assets and liabilities are netted on the statement of financial position where such balances relate to the same tax authority. All deferred tax assets and liabilities in the statement of financial position are classed as non-current items.

Deferred tax assets have been recognised to the extent that

utilisation is assessed as probable given future profit projections. The uncertainty associated with Brexit (see page 11) is not anticipated to adversely impact the deferred tax position on the basis that FCE is expected to continue to operate profitably under alternative business structures and licencing arrangements if required, in the absence of passporting

	Company		Group	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
Accelerated tax depreciation	£ (1)	£ -	£ (1)	£ -
Tax losses	-	3	5	3
Loss reserves and other temporary differences	(7)	27	(7)	25
Income statement (charge) / Credit	£ (8)	£ 30	£ (3)	£ 28

In the Finance (No 2) Act in 2016 there was a reduction to the main rate of corporation tax effective from 1 April 2020 to

17% which has been reflected in deferred taxes as at 31 December 2017.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

20 GOODWILL AND OTHER INTANGIBLE ASSETS

	Company			Total	Group			Total	
	Goodwill	Software			Software	Externally			Total
	£ mil	Internally generated £ mil	Externally acquired £ mil		Internally generated £ mil	acquired £ mil	£ mil		£ mil
Cost									
At 1 January 2016	£ 212	£ 29	£ 17	£ 258	£ 30	£ 17	£ 47		
Additions	-	5	-	5	5	-	5		
Disposals	-	(4)	-	(4)	(4)	-	(4)		
At 31 December 2016 / 1 January 2017	£ 212	£ 30	£ 17	£ 259	£ 31	£ 17	£ 48		
Additions	-	4	1	5	4	1	5		
Disposals	-	-	-	-	-	-	-		
At 31 December 2017	£ 212	£ 34	£ 18	£ 264	£ 35	£ 18	£ 53		
Accumulated amortisation and impairment									
At 1 January 2016	£ (64)	£ (18)	£ (17)	£ (99)	£ (19)	£ (17)	£ (36)		
Amortisation charge for the year	-	(2)	-	(2)	(2)	-	(2)		
Disposals	-	1	-	1	1	-	1		
At 31 December 2016 / 1 January 2017	£ (64)	£ (19)	£ (17)	£ (100)	£ (20)	£ (17)	£ (37)		
Amortisation charge for the year	(121)	(2)	-	(123)	(2)	-	(2)		
Disposals	-	-	-	-	-	-	-		
At 31 December 2017	£ (185)	£ (21)	£ (17)	£ (223)	£ (22)	£ (17)	£ (39)		
Net book value at 31 December 2016	£ 148	£ 11	£ -	£ 159	£ 11	£ -	£ 11		
Net book value at 31 December 2017	£ 27	£ 13	£ 1	£ 41	£ 13	£ 1	£ 14		

'Other intangible assets' relate entirely to computer software development costs which are anticipated to generate future economic benefits to FCE. Software development costs are amortised to the income statement within 'Operating expenses' over the estimated useful life of the system as specified in Accounting Policy T item 'Other intangible assets'.

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

An impairment review of the CGU is conducted annually on the basis of value in use using cash flow projections based on the Company's five year business plan forecasts and a

discount rate of 8 per cent. Management assessed the goodwill of the existing German segment over the business plan taken into consideration the Brexit contingency plan.

Key assumptions within the five years business plan forecast include:

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

The recoverable amount was below the carrying value of the CGU. An impairment loss of £121 million was recognised in the profit or loss of the Company.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

21 INVESTMENT IN A JOINT VENTURE

As at 31 December	2017 £ mil	2016 £ mil
Current assets	£ -	£ 280
Long term assets	-	259
Total assets	£ -	£ 539
Current liabilities	£ -	£ 263
Long term liabilities	-	220
Total liabilities	£ -	£ 483
Revenue	£ 15	£ 14
Operating expenses	(11)	(8)
Profit before tax	£ 4	£ 6
Income tax expense	£ (1)	£ (1)
Share of profit of a jointly controlled entity	£ 3	£ 5

Forso Nordic AB ('Forso') is a regulated Swedish company with branch operations in Denmark and Norway and a subsidiary located in Finland. It is 50% less one share owned by Saracen Holdco AB.

FCE transferred its ownership of Saracen to FCSH in August 2017 at book value of £63 million. FCE recognised 50% share of profits during this period and reported it in the consolidated financial results. Historical currency translation differences of £9 million recognised in equity has been released to the Group's statement of profit or loss.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

22 INVESTMENTS IN OTHER ENTITIES

Investments in group undertakings at 31 December were as follows:

As at 31 December	Company	
	2017 £ mil	2016 £ mil
Net book value at 1 January	£ 66	£ 77
Capital repayment	-	(7)
Liquidation of group undertaking	-	(8)
Poland Branch Merger	-	4
Fair value adjustment through OCI	(1)	-
Transfer of group undertakings to consolidated entity	(3)	-
Investment in group undertakings	19	-
Net book value at 31 December	£ 81	£ 66
Current	£ -	£ -
Non-current	81	66
Net book value at 31 December	£ 81	£ 66

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

As at 31 December	Group	
	2017 £ mil	2016 £ mil
Fair value at 1 January	£ 4	£ 3
Fair value adjustment through OCI	(1)	1
Fair value at 31 December	£ 3	£ 4
Current	£ -	£ -
Non-current	3	4
Fair value at 31 December	£ 3	£ 4

Investment in group undertakings relates to establishment of a newly owned subsidiary in Germany (Ford Financial GmbH). FCE made an investment of £19 million into this entity during 2017.

FCE transferred its wholly owned subsidiary (Saracen Holdco AB) in August 2017 to FCSH. A gain on sale of £59 million was recognised in the company profit or loss account.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

22 INVESTMENTS IN OTHER ENTITIES continued

List of Consolidated Companies

Subsidiary Undertakings

Entity	Country of Incorporation	Principal Activity	Accounting Reference Date	Ownership
Volvo Car Finance Limited	England and Wales	Dormant	31 December	100%
FCE Credit s.r.o.	Czech Republic	Finance company	31 December	100%
FCE Credit Hungaria Zrt	Hungary	Finance company	31 December	100%
FCE Services Kft *	Hungary	Finance company	31 December	100%
Ford Credit (Switzerland) GmbH	Switzerland	Finance company	31 December	100%
Ford Financial GmbH	Germany	Other	31 December	100%
Globaldrive (Switzerland) GmbH *	Switzerland	Structured entity	31 December	100%

*subsidiaries indirectly owned by the Company

Structured Entities (SE)*

Entity	Country of Incorporation	Assets Securitised or SE type	Accounting Reference Date	Ownership
Active Retail SE's				
Globaldrive Receivables Trustee (UK) Two Limited	England	UK Retail - Receivables Trustee	31 December	0%
Globaldrive (UK) Variable Funding I plc	England	UK Retail	31 December	0%
Globaldrive Auto Receivables UK VFN 2017 plc	England	UK Retail	31 December	0%
Globaldrive Auto Receivables UK 2016-A plc	England	UK Retail	31 December	0%
Globaldrive Auto Receivables UK 2017-A plc	England	UK Retail	31 December	0%
Globaldrive Germany Retail Lease VFN 1 B.V.	Netherlands	Germany Retail / Lease	31 December	0%
Globaldrive Germany Retail VFN 2011 B.V.	Netherlands	Germany Retail	31 December	0%
Globaldrive Auto Receivables 2014-B B.V.	Netherlands	Germany Retail	31 December	0%
Globaldrive Auto Receivables 2015-A B.V.	Netherlands	Germany Retail	31 December	0%
Globaldrive Auto Receivables 2016-A B.V.	Netherlands	Germany Retail	31 December	0%
Globaldrive Auto Receivables 2016-B B.V.	Netherlands	Germany Retail	31 December	0%
Globaldrive Auto Receivables 2017-A B.V.	Netherlands	Germany Retail	31 December	0%
Active Wholesale SE's				
Globaldrive UK Dealer Floorplan Funding I Limited	Jersey	UK Wholesale - Funding	31 December	0%
Globaldrive UK Dealer Floorplan Receivables Trustee I Ltd	Jersey	UK Wholesale - Receivables Trustee	31 December	0%
Globaldrive Dealer Floorplan Germany 2016 B.V.	Netherlands	Germany Wholesale	31 December	0%
Inactive Retail SE's (pending liquidation):				
Globaldrive Auto Receivables 2014-A B.V.	Netherlands	Germany Retail	In the process of being liquidated	
Globaldrive (UK) Variable Funding II plc	England	UK Retail	In the process of being liquidated	

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

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

23 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

As at 31 December	Company		Group	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
Due to banks and other financial institutions not in respect of securitisation				
Borrowings from banks and other financial institutions	£ 360	£ 430	£ 492	£ 542
Bank overdrafts	12	4	16	8
Sub-total:	£ 372	£ 434	£ 508	£ 550
Due to banks and other financial institutions in respect of securitisation				
Obligations arising from securitisation of loans and advances	£ 518	£ 611	£ 1,569	£ 2,188
Sub-total:	£ 518	£ 611	£ 1,569	£ 2,188
Total due to banks and other financial institutions	£ 890	£ 1,045	£ 2,077	£ 2,738
Current	£ 578	£ 817	£ 1,167	£ 1,004
Non-current	312	228	910	1,734
Total due to banks and other financial institutions	£ 890	£ 1,045	£ 2,077	£ 2,738

'Obligations arising from securitisation of loans and advances' reflects sales of loans completed under private transactions. As the arrangements do not satisfy the requirements for derecognition under IAS 39 'Financial instruments, recognition and measurement', these loans and the associated debt remain on the statement of financial position.

Where the Company has entered into a structured financing arrangement with a third party finance provider and no SE structure is involved, a liability is recognised within the Company statement of financial position representing the net proceeds received from the legal transfer of loans to the finance provider. This liability does not represent a legal obligation of the Company and is payable only out of collections on the underlying loans transferred to the finance provider or retained interests.

24 DEPOSITS

As at 31 December	Company		Group	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
Customer deposits	£ 320	£ -	£ 320	£ -
Dealer deposits	58	58	58	58
Other deposits	10	11	10	11
Total deposits	£ 388	£ 69	£ 388	£ 69
Current	£ 347	£ 64	£ 347	£ 64
Non current	41	5	41	5
Total deposits	£ 388	£ 69	£ 388	£ 69

'Customer deposits' consists of Flexible and Fixed Term products and ISAs offered to UK consumers.

'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.

'Other deposits' include amounts received from public sector entities and non-financial corporates.

All deposits are available for use in the Company's day to day operation amounts due to the Company.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

25 DUE TO PARENT AND RELATED UNDERTAKINGS

As at 31 December	Company		Group	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
Loans from FCSH GmbH	£ 540	£ 657	£ 540	£ 657
Loans from Ford Credit	1,660	321	1,660	321
Deposits received from related undertakings	68	34	68	34
Senior debt	£ 2,268	£ 1,012	£ 2,268	£ 1,012
Net cash proceeds from securitisation of loans and advances	£ 2,852	£ 3,223	£ -	£ -
Accounts payable to related undertakings	179	177	165	155
Accrued interest	3	3	3	3
Other due to parent and related undertakings	£ 3,034	£ 3,403	£ 168	£ 158
Total due to parent and related undertakings	£ 5,302	£ 4,415	£ 2,436	£ 1,170
Current	£ 1,890	£ 1,086	£ 571	£ 344
Non-current	3,412	3,329	1,865	826
Due to parent and related undertakings	£ 5,302	£ 4,415	£ 2,436	£ 1,170

'Loans from FCSH GmbH' consists of four Sterling denominated loans from FCSH to FCE: a £300 million loan due to mature in December 2018, a £35 million loan due to mature in June 2018, a £145 million loan due to mature in January 2020 and a £60 million loan due to mature in December 2020.

'Loans from Ford Credit' consists of 3 Euro denominated loan from Ford Credit: a £334 million loan due to mature in August 2019, a £532 million loan due to mature in November 2021, a £532 million loan due to mature in November 2024 and a Sterling denominated loan of £262 million due to mature in June 2019 .

'Net cash proceeds from securitisation of loans and advances' 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.

'Accounts payable to related undertakings' includes £39 million of tax and interest that is payable to a related company within the UK tax group. The remaining balance relates to amounts generated in the ordinary course of business. Such balances are typically settled on a daily or monthly basis.

'Accrued interest' primarily relates to interest due on 'Total senior debt' and 'Subordinated loans'.

Other amounts due to FCSH are reported within Note 28 'Subordinated loans'.

Amounts due from related undertakings are reported within Note 12 'Other Assets'.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

26 DEBT SECURITIES IN ISSUE

	Company		Group	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
As at 31 December				
Listed debt:				
Euro Medium Term Notes issued	£ 9,051	£ 8,427	£ 9,051	£ 8,427
Obligations arising from securitisation of loans and advances	-	-	2,248	2,080
Sub-total listed debt	£ 9,051	£ 8,427	£ 11,299	£ 10,507
Unlisted debt:				
Euro Medium Term Notes issued	£ 165	£ 223	£ 165	£ 223
Schuldschein (refer to definition below)	13	43	13	43
Sub-total unlisted debt	£ 178	£ 266	£ 178	£ 266
Debt securities in issue	£ 9,229	£ 8,693	£ 11,477	£ 10,773
Current	£ 2,000	£ 991	£ 3,043	£ 1,807
Non-current	7,229	7,702	8,434	8,966
Debt securities in issue	£ 9,229	£ 8,693	£ 11,477	£ 10,773
Analysis of debt securities in issue				
Unsecured borrowings	£ 9,229	£ 8,693	£ 9,229	£ 8,693
Obligations arising from securitisation of loans and advances	-	-	2,248	2,080
Debt securities in issue	£ 9,229	£ 8,693	£ 11,477	£ 10,773

The Group's EMTN programme had an issuance limit of €15 billion (or the equivalent in other currencies) as at 31 December 2017. The EMTN Base Prospectus contains information relating to all notes and is dated 18 September 2017. Listed notes issued under the EMTN programme are available to view on the Official List of the Luxembourg Stock Exchange and are admitted for trading on the Luxembourg Stock Exchange's regulated market. The Luxembourg Stock Exchange's website address is provided on page 132.

The Group completed two public listed EMTN issuances in Euros, totaling the equivalent of £1.3 billion. The Group also repaid the equivalent of £1 billion of sterling and Euro denominated loans that matured during the year.

The remaining movement of the EMTN's from December 2016 represents currency revaluation.

'Obligations arising from securitisation of loans and advances' reflects sales of loans completed under externally placed public transactions. As the arrangements do not satisfy the requirements for derecognition in accordance with IAS 39 'Financial instruments, recognition and measurement', the sold loans remain on the Company's statement of financial position. The associated debt is the legal obligation of the securitisation SEs and therefore reflected in the Group's statement of financial position.

During 2017, the Group completed two public term securitisation transactions. In July for £0.4 billion and in September for €0.7 billion (approximately £0.6 billion).

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

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

27 OTHER LIABILITIES AND PROVISIONS

As at 31 December	Company		Group	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
Other Liabilities and Provisions				
Accrued interest on debt	£ 58	67	£ 59	68
Trade payables	104	87	118	94
Accrued liabilities and deferred income	115	80	117	82
Operating lease subvention	47	41	47	41
Provisions (see table below)	6	7	6	7
Total other liabilities	£ 330	£ 282	£ 347	£ 292
Current	£ 328	£ 278	£ 345	£ 288
Non current	2	4	2	4
Total other liabilities	£ 330	£ 282	£ 347	£ 292

Provisions Movement	Company Restructuring	Group Restructuring
	£ mil	£ mil
At 1 January 2017	£ 7	£ 7
Additions	2	2
Used	(2)	(2)
Unused	(1)	(1)
At 31 December 2017	£ 6	£ 6

'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 2017

28 SUBORDINATED LOANS

As at 31 December	Company/Group	
	2017 £ mil	2016 £ mil
Perpetual Loans	£ 334	£ 308
Total loan amounts	£ 334	£ 308
Analysis of subordinated loans		
Due to FCSH	£ 334	£ 308
Total subordinated loans	£ 334	£ 308

During November 2017 FCE redenominated the USD subordinated loan (\$218 million) to GBP (£165 million). In December, FCE issued an additional €40 million (£35 million) subordinated unsecured loan note to FCSH. The remaining movement from December 2016 represents currency revaluation.

There is also a US \$1 billion subordinated loan facility with FCI. This facility enables the Company to respond quickly if additional capital support is required. Under the agreed terms, the Company is able to request drawdowns up to the maximum principal amount. Any undrawn amount of the facility will be available, subject to the lender consenting to a drawdown request, until it is cancelled either by the Company or FCI. Foreign currency derivatives are used to minimise currency risks on US dollar denominated funding.

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

The loans listed above satisfy the conditions for eligibility as Tier 2 capital instruments, and are included in the calculation of 'Own Funds'. For further details refer to Pillar 3 disclosure in Table 14 on page 121.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

29 ORDINARY SHARES AND SHARE PREMIUM

As at 31 December	Company and Group			
	2017 £ mil		2016 £ mil	
Allotted, called up and fully paid at 1 January and 31 December				
614,384,050 Ordinary shares of £1 each (2016: 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.

Since 1 January 2003 the total issued share capital of FCE has been £614 million comprising of 614,384,050 Ordinary £1 shares. All of the shares of FCE are held by FCSH, an indirect wholly-owned subsidiary of FMCC. On 1st November 2017 FCSH acquired one share from FCI to become the sole shareholder of FCE.

Support agreement

Pursuant to a support agreement between FMCC and FCE dated 30 September 2004, FMCC has agreed with FCE to maintain, directly or indirectly, a controlling interest of not less than 75% of the issued share capital of FCE and to maintain or procure the maintenance of FCE's net worth of not less than 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 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 2024.

30 DIVIDEND PER SHARE

FCE paid a dividend of £35 million (2016: £50 million), settled through the issue of subordinated debt to its shareholder FCSH in December 2017. The dividend equated to approximately 5.7 pence per ordinary share.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

31 RETIREMENT BENEFIT OBLIGATIONS

Employees in all of FCE's locations except Hungary and Poland participate in defined benefit and defined contribution pension plans. The most significant defined benefit arrangements in which FCE participates relate to Ford UK and German pension plans which are accounted for under IAS 19 'Employee Benefits' as defined benefit plans that share risks between entities under common control. These plans are final salary pension plans operated by Ford and FCE's contribution related to its participation in these plans is determined based on an allocation of current service cost; in no case is the contribution payable determined based on an allocation of the total net defined benefit cost. 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. 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. The UK and Belgium plans did not meet the minimum funding requirements as at 31 December 2017 and recovery plans have been arranged by Ford to restore full funding. All other plans in which FCE participates had satisfied the minimum funding requirements at 31 December 2017. Each plan is administered by trustees and pension boards, which have the responsibility for the investment of plan assets. As at 31 December 2017 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

As at 31 December	2017				2016			
	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	£ 624	£ -	£ -	£ 624	£ 652	£ -	£ -	£ 652
International companies	524	81	-	605	521	52	-	573
Total equity	£ 1,148	£ 81	£ -	£ 1,229	£ 1,173	£ 52	£ -	£ 1,225
Fixed income								
U.S. Government	£ 186	£ 29	£ -	£ 215	£ 178	£ -	£ -	£ 178
U.S. Government-Sponsored Enterprises, 'GSEs'	-	-	-	-	-	23	-	23
Non-U.S. Government	-	4,255	-	4,255	-	3,571	-	3,571
Corporate bonds	-	833	-	833	-	596	-	596
Mortgage/other asset-backed	-	98	-	98	-	85	-	85
Commingled funds	-	-	-	-	-	-	-	-
Derivative financial instruments	(1)	24	-	23	2	2	-	4
Total fixed income	£ 185	£ 5,239	£ -	£ 5,424	£ 180	£ 4,277	£ -	£ 4,457
Alternatives								
Hedge funds (a)	£ -	£ -	£ 336	£ 336	£ -	£ 34	£ 463	£ 497
Private equity (b)	-	-	195	195	-	-	205	205
Real estate (c)	-	-	142	142	-	(1)	171	170
Total alternatives	£ -	£ -	£ 673	£ 673	£ -	£ 33	£ 839	£ 872
Cash and cash equivalents (d)	129	-	-	129	-	67	-	67
Other (e)	(206)	-	3,540	3,334	-	(145)	3,453	3,308
Total assets at fair value	£ 1,256	£ 5,320	£ 4,213	£ 10,789	£ 1,353	£ 4,284	£ 4,292	£ 9,929

- 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 (insurance contract valued at £3,990 million in 2017 and £3,453 million in 2016) and cash related to net pending security (purchases)/sales and net pending foreign currency purchases/(sales).

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

31 RETIREMENT BENEFIT OBLIGATIONS continued

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

Plan obligations	2017 £mil	2016 £mil
Benefit obligation at 1 January	£ 14,901	£ 11,751
Service cost	291	237
Interest cost	268	307
Plan participant contributions	1	1
Actuarial (gain)/loss	(69)	1,860
Benefit payments	(456)	(446)
Special/contractual termination benefits	11	50
Foreign exchange translation	328	1,141
Benefit obligation at 31 December	£ 15,275	£ 14,901

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.

Retirement plan costs

FCE's total retirement plan costs, including contributions to Ford-sponsored plans, expense incurred for FCE's defined benefit plans and contributions to defined contribution plans was £22 million (2016: £81 million).

Principal actuarial assumptions at the reporting date		2017 %	2016 %
Discount rate		2.1	2.2
Future salary increases		3.0	3.0
Future pension increases		1.8	1.8
Future pension increases (discretionary)		NIL	NIL
The average life expectancy in years of a member retiring at age 65 on the reporting date is as follows		Years	Years
	Male	21.2	21.4
	Female	23.7	23.8
The average life expectancy in years of a member retiring at age 65, 20 years after the reporting date is as follows			
	Male	23.2	23.3
	Female	25.6	25.7

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

31 RETIREMENT BENEFIT OBLIGATIONS continued

(ii) Defined benefit plans operated by the Company

	Company participants		Expenses recognised	
	2017	2016	2017 £'000s	2016 £'000s
Defined benefit plans				
Austria	4	5	£ (52)	£ (48)
Belgium	5	5	-	-
France	96	96	23	85
Greece	24	24	10	9
Spain	24	24	348	257
Total	153	154	£ 329	£ 303

The table above details the defined benefit plans operated by FCE. Actuarial valuation reports have been obtained for the years to 31 December. The reports are used to determine the contributions made by FCE into each plan.

Austria has an insurance policy valued at £0.2 million (2016: £0.3 million) which does not qualify as a plan asset.

France has two defined benefit plans. There is an insurance policy for the more significant plan (with 96 participants). The obligations for this plan in the table below are recognised net of the asset value of the policy. For the other plan, at each employee's retirement date, FCE purchases an annuity and transfers the pension liability for the retiree to the insurer.

The following tables set out the plan assets and obligations for each of these plans.

	2017 £ mil	2016 £ mil	2015 £ mil	2014 £ mil	2013 £ mil
Austria					
Plan assets	£ -	£ -	£ -	£ -	£ -
Plan obligations	(0.3)	(0.5)	(0.5)	(0.4)	(0.4)
Deficit	£ (0.3)	£ (0.5)	£ (0.5)	£ (0.4)	£ (0.4)
Belgium					
Plan assets	£ 0.8	£ 0.7	£ 0.7	£ 0.7	£ 0.7
Plan obligations	(0.8)	(0.7)	(0.5)	(0.6)	(0.6)
Surplus	£ -	£ -	£ 0.2	£ 0.1	£ 0.1
France					
Plan assets	£ -	£ -	£ -	£ -	£ -
Plan obligations	(1.3)	(1.1)	(1.0)	(1.0)	(1.0)
Deficit	£ (1.3)	£ (1.1)	£ (1.0)	£ (1.0)	£ (1.0)
Greece					
Plan assets	£ -	£ -	£ -	£ -	£ -
Plan obligations	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Deficit	£ (0.2)	£ (0.2)	£ (0.2)	£ (0.2)	£ (0.2)
Spain					
Plan assets	£ 8.4	£ 8.1	£ 5.3	£ 5.2	£ 3.6
Plan obligations	(8.9)	(8.5)	(5.6)	(5.6)	(3.8)
Deficit	£ (0.5)	£ (0.4)	£ (0.3)	£ (0.4)	£ (0.2)

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

31 RETIREMENT BENEFIT OBLIGATIONS continued

(iii) Defined Contributions Plans

As at 31 December	Company		Group	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
Total contributions recognised in year	£ 2	£ 2	£ 2	£ 2

32 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 2017 these non-cancellable offers totaled below £1 million (2016: totaled below £2 million).

33 FUTURE LEASE COMMITMENTS

As at 31 December	Company		Group	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
The future minimum payments under non cancellable operating leases are as follows:				
Not later than one year	£ 5	£ 6	£ 5	£ 6
Later than one year and not later than five years	13	13	13	14
Later than five years	5	6	5	6
Future lease commitments	£ 23	£ 25	£ 23	£ 26

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

34 CONTINGENT LIABILITIES

As at 31 December	Company		Group	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
Guarantees provided on behalf of Ford:				
Spanish Ministry of Industry and regional authorities	£ 5	£ 6	£ 5	£ 6
Customs authorities, revenue commissioners and agencies	27	18	27	18
Other guarantees	-	3	-	3
Total guarantees provided on behalf of Ford	£ 32	£ 27	£ 32	£ 27
Other guarantees provided on behalf of subsidiaries	0	1	-	-
Other guarantees provided to third parties	1	1	1	1
Total guarantees	£ 33	£ 29	£ 33	£ 28

Guarantees

'Total guarantees provided on behalf of Ford' include debt and other financial obligations of Ford. Such arrangements are counter-indemnified by Ford and a fee is payable by Ford for the guarantee.

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

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

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, commercial and other contractual relationships. Such matters are subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. The group has established provisions for certain legal actions and claims related to commercial actions where losses are deemed probable and reliably estimable. It is possible that certain actions or 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 however, at this point, it is not practicable to estimate the financial effect.

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.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

35 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. These products are classified as 'loans and advances' under IAS 39. The Company could also incur a credit loss if the counterparty to an investment, interest rate or foreign currency derivative with FCE defaults. These exposures are classified as 'financial assets held at fair value through profit or loss' under IAS 39.

35a) Loans and advances

The amount which best represents the maximum exposure to credit risk within loans and advances without taking account of any collateral held or other credit enhancements as at 31 December 2017 is £16,798 million, (2016: £14,800 million) being the value of loans and advances to customers as disclosed in Note 13.

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

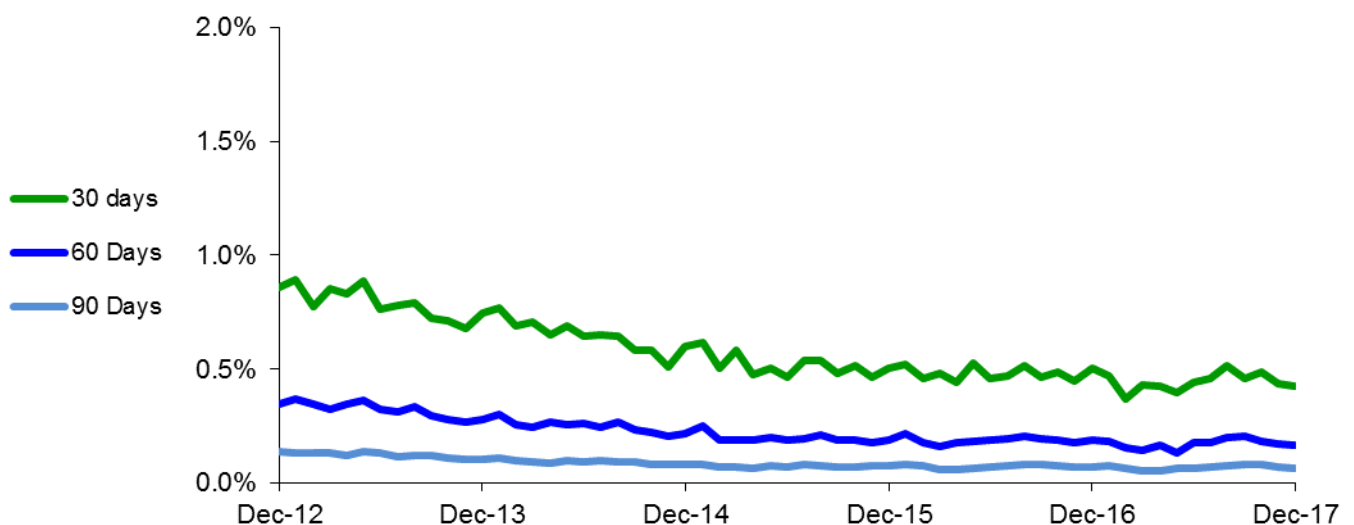
Retail

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

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

As at 31 December 2017, the majority of FCE's outstanding retail portfolio was neither past due nor impaired. Approximately 2% of the total retail consumer and commercial portfolio that was neither past due nor impaired was designated as marginal credit quality.

Retail Delinquency 5 year monthly trend



Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

35 CREDIT RISK continued

Wholesale

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

factors or other information that improves their statistical predictability.

For monitoring and control purposes, each dealer is assigned a Treatment of Account (TOA) rating based on the worse of the Financial and Judgmental ratings. These have been grouped in the table below to provide an overview of FCE's dealer portfolio risk mix.

Economic conditions and vehicle industry sales continued to improve and have driven improved dealer profitability across the European dealer network, which is evidenced by the movement in the dealer mix from Group II to Group I.

For the year ended 31 December	Note	Group	
		2017 £ mil	2016 £ mil
Group I (risk rating 0-3)		£ 3,149	£ 2,550
Group II (risk rating 4-5)		2,490	2,565
Group III (risk rating 6-7)		865	827
Group IV (risk rating 8-9)		60	45
Total gross wholesale and other loans and advances	13	£ 6,564	£ 5,987
Percentage analysis			
Group I (risk rating 0-3)		48%	42%
Group II (risk rating 4-5)		38%	43%
Group III (risk rating 6-7)		13%	14%
Group IV (risk rating 8-9)		1%	1%

Forbearance

Where FCE agrees repayment concessions with a customer, as a direct result of the customer contacting FCE due to facing financial difficulties and requesting assistance, the contract is considered a forbore exposure. Examples of such concessions include payment holidays and reduced payments for an agreed term. An exposure is forbore regardless of whether the customer's account was current or

past due at the point the concession was granted. The increase in wholesale forbore exposures as at 31 December 2017 is primarily due to a refinancing arrangement agreed with a dealer in Italy where the dealer's vehicle inventory was damaged in a flood. FCE does not expect to incur a loss in this respect.

As at 31 December	Dec-17 £ mil	Dec-16 £ mil
Retail		
Performing Exposures	£ 108.1	£ 99.9
Non-Performing Exposures	1.5	1.3
Total Retail Forborne Exposures	£ 109.6	£ 101.2
Wholesale		
Performing Exposures	£ 87.3	£ 13.9
Non-Performing Exposures	12.4	15.0
Total Wholesale Forborne Exposures	£ 99.7	£ 28.9

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

35 CREDIT RISK continued

Impairment

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

Retail financing contracts are individually impaired as soon as it is apparent and reasonable to conclude that a credit loss will arise and at no later than 120 days past due. Following the impairment of a retail financing contract the carrying value of the loan is reduced to reflect the average vehicle recovery value.

Following the impairment of a wholesale contract the carrying value of the loan is reduced to reflect the estimated collectible amount including the effect of partial or full guarantees or other forms of security (including physical stock).

The value of loans and advances considered to be impaired at the reporting date is £67 million (2016: £50 million).

Collateral

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

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

As at 31 December 2017, the value of loans that are collateralised is £7,272 million (2016: £6,555 million) in relation to retail and lease and £6,138 million for wholesale (2016: £5,549 million).

Counterparty risk within loans and advances

FCE has a wholesale counterparty limit policy based on levels of exposure and risk ratings. Reports on the largest concentrations 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.

35b) Financial assets held at fair value through profit or loss

Cash and cash equivalents

At 31 December 2017, 69% of Cash and cash equivalents (2016: 72%) are held in central banks within Europe. The remaining 31% is predominantly held in banks with minimum rating of BBB- (2016: BBB-). Refer to Note 10 'Cash and cash equivalents' for values.

Derivative financial instruments

European Market Infrastructure Regulation (EMIR) requires mandatory clearing of certain Over the Counter (OTC) derivatives through authorised Central Counterparties (CCP). Clearing derivatives through a CCP mitigates counterparty credit risk through the margin process (Initial Margin and Variation Margin). FCE began clearing these derivatives in June 2016 through an approved CCP to satisfy EMIR requirements.

During 2017, EMIR regulations also introduced margining requirements (Initial Margin and Variation Margin) for non-cleared OTC derivatives. FCE is not currently subject to Initial Margin requirements, but anticipates it will be by September 2020. Variation margin requirements became effective for FCE from 1st March 2017 for all new and amended trades entered into from that date. FCE began clearing variation margin for these derivatives in March 2017 to satisfy EMIR requirements.

FCE establishes exposure limits for each counterparty to minimise this risk and provide counterparty diversification.

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.

The aggregate fair value of non-centrally cleared derivative instruments in asset positions at 31 December 2017 is £319 million (2016: £335 million), representing the maximum potential loss at that date if all counterparties failed to perform as contracted. The maximum potential loss is reduced through master agreements, which would generally allow for netting of certain exposures. Refer to Note 11 'Derivative financial instruments' for further details.

For details on the valuation of financial assets and liabilities at fair value, refer to Note 39 'Financial Assets and Financial Liabilities'.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

36 VEHICLE RESIDUAL VALUES

The following vehicle residual values, for which FCE holds the primary residual value risk, relating to retail loans and operating leases are included in 'Loans and advances to customers' and 'Property and equipment' respectively in the

statement of financial position. The table below presents Group and Company combined, as the subsidiaries hold no residual value risk to FCE.

Group

As at 31 December

Year in which the residual value will be recovered

	Retail residual values		Operating lease residual values		2017		2016	
	£ mil		£ mil		£ mil		£ mil	
Within 1 year	£	465	£	235	£	700	£	580
Between 1-2 years		768		-		768		720
Between 2-5 years		965		-		965		844
More than 5 years		-		-		-		-
Total residual values	£	2,198	£	235	£	2,433	£	2,144

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

Residual value provisions are maintained to reflect the level of vehicle residual value risk within the financial statements. For further details refer to Note 15 'Provision for vehicle residual value losses'.

Retail residual values

The retail residual value figures included in the table above assume that all retail vehicles where FCE is subject to vehicle residual value risk will be returned. FCE is subject to vehicle residual value risk on certain retail or finance lease balloon payment products where the customer may choose to return the financed vehicle to FCE at the end of the contract. Residual values are established by reference to various sources of independent and proprietary knowledge. Guaranteed Minimum Future Values ('GMFV's) on retail plans are set below the future market value to protect customer equity and promote Trade Cycle Management products. In the UK market, the GMFV is referred to as the 'Optional Final Payment'. FCE's normal policy is that the

GMFV must be a minimum of 5% of the new vehicle list price below the future market value and is increased to 8% for terms less than 24 months. This policy is a key factor behind the annual rate of return (for vehicles financed under retail finance plans where FCE is subject to residual value risk) being 3.1% (2016: 4.5%) of the maturing portfolio.

Operating lease residual values

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

Sensitivity analysis

If the residual values of FCE's existing portfolio of retail contracts, as at 31 December 2017, were to reduce by 1% below the current forecast values it is estimated this would increase the forecast return rate for 2017 from 3.5% to 4.1% and have an adverse profit impact to the Company of approximately £0.85m in 2017 (2016: £1.0m).

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

37 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 currency exchange derivatives. FCE's derivatives strategy is designed to mitigate risk; derivatives are not used for speculative purposes.

The key derivative policies are:

- Prohibition of use for speculative purposes
- Prohibition of use of leveraged positions
- Requirement for regular in-depth exposure analysis
- Establish and document accounting treatment at onset of trade
- Clearing of certain derivatives with central clearing counterparties as required through the EMIR regulations
- Established exposure limits (including cash deposits) with counterparties for non-cleared derivatives
- Treasury employee's remuneration not being linked to individuals trading performance

Derivatives Control

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

The key derivative controls are:

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

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
37a)	Investment and funding in foreign currencies	Sensitivity to change in foreign currency exchange rates	- Cross currency interest rate swaps - Foreign currency forward contracts
37b)	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

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

37a) CURRENCY RISK

In addition to the UK the Company operates active branches in eleven other European countries and has subsidiaries in the Czech Republic, Hungary and Switzerland which provide a variety of wholesale, leasing and retail vehicle financing (see Note 22 'Investment in other entities'). The functional currency of the Group's and Company's operations outside of the UK is the Euro, with the exception of the Company's branch in Poland and subsidiaries in the Czech Republic, Hungary, and Switzerland.

The main operating currencies are therefore Euro and Sterling. As FCE presents its Group and Company financial statements in Sterling, these will be affected by foreign currency exchange rate movements between the Euro and Sterling. The Company does not hedge structural foreign currency investments in overseas operations as each investment is considered to be of a long term nature. The effect of foreign currency changes on such investments is recognised in equity through the translation reserve.

FCE 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 recognized in the statement of profit or loss.

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

As at 31 December	Company		Group	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
Net assets of foreign operations				
Euro	£ 1,454	£ 1,283	£ 1,454	£ 1,338
Other non Euro currencies	37	25	140	125

As at 31 December	Company		Group	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
Foreign currency translation reserve				
Euro	£ 406	£ 357	£ 406	£ 367
Other non Euro currencies	11	18	31	28
Total	£ 417	£ 375	£ 437	£ 395

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

37b) INTEREST RATE RISK

FCE's asset base consists primarily of fixed-rate retail instalment sale, hire purchase, conditional sale and lease contracts, with an average life of approximately 2.5 years, and floating rate wholesale financing loans with an average life of approximately 2 months. Funding sources consist primarily of securitisation and unsecured term debt. It is FCE's policy to execute interest rate swaps to change the interest rate characteristics of the debt to match, within a tolerance range, the interest rate characteristics of FCE's assets. This matching policy seeks to maintain margins and reduce profit volatility.

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

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

To provide a quantitative measure of the sensitivity of pre-tax net interest income to changes in interest rates, FCE uses interest rate scenarios. These scenarios assume a hypothetical, instantaneous increase or decrease in interest rates of one hundred basis points across all maturities (a 'parallel shift'), impacting both assets and liabilities, as well as a base case that assumes that interest rates remain constant at existing levels. These interest rate scenarios do

not represent an expectation of future interest rate movements. The differences in pre-tax net interest income between these scenarios and the base case over a twelve-month period represent an estimate of the sensitivity of FCE's pre-tax net interest income. The sensitivity of interest income to changes in interest rates in the 12 months following the year ended 31 December 2017 and 2016 is detailed below.

The sensitivity analysis presented previously assumes a one hundred basis point rate change to the year-end yield curve that is both instantaneous and parallel and impacts the re-pricing of assets and liabilities. In reality, interest rate changes are rarely instantaneous or parallel and rates could move more or less than the one percentage point assumed. In addition, management has discretion over the pricing of its new assets, and may re-price assets to a greater or lesser degree than its liabilities re-price. As a result, the actual impact to pre-tax net interest income could be higher or lower than the results detailed above.

While the sensitivity analysis presented is FCE's best estimate of the impacts of the specified assumed interest rate scenarios, actual results could differ from those projected. The model used to conduct this analysis is heavily dependent on assumptions. Embedded in the model are assumptions regarding the reinvestment of maturing asset principal, refinancing of maturing debt, and predicted repayment of retail instalment sale and lease contracts ahead of the contract end date. Repayment projections ahead of contractual maturity are based on historical experience. If interest rates or other factors change, the actual prepayment experience could be different than projected. FCE has presented its sensitivity analysis on a pre-tax rather than an after-tax basis, to exclude the potentially distorting impact of assumed tax rates.

	Group	
	2017 £ mil	2016 £ mil
Net interest income impact of 100 basis point rate change		
Euro	£ 11	£ 7
Sterling	7	2
Other	-	1
Increase	£ 18	£ 10
Euro	£ (11)	£ (7)
Sterling	(7)	(2)
Other	-	(1)
Decrease	£ (18)	£ (10)

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

38 LIQUIDITY RISK

Group As at 31 December 2017		0-3 Months £ mil	4-12 Months £ mil	1-5 Years £ mil	5+ Years £ mil	Total £ mil
Assets	Note					
Cash and cash equivalents	A	£ 1,544	£ -	£ -	£ -	1,544
Derivative financial instruments	E	69	59	178	4	310
- Retail/Lease	B	806	2,831	7,271	16	10,924
- Wholesale	B	759	5,895	35	-	6,689
Loans and advances to customers	B	1,565	8,726	7,306	16	17,613
Operating leases	B	152	137	-	-	289
Other assets	D	280	(4)	4	95	375
Total asset inflows		£ 3,610	£ 8,918	£ 7,488	£ 115	20,131
Liabilities						
Due to banks and other financial institutions	C	£ 369	£ 685	£ 1,024	£ -	£ 2,078
Deposits	C	207	148	34	-	389
Due to parent and related undertakings	C	239	348	1,380	553	2,520
Debt securities in issue	C	744	2,041	8,336	675	11,796
Derivative financial instruments	E	8	4	6	1	19
Other liabilities	D	148	30	21	21	220
Subordinated loans	D	-	7	39	334	380
Total liability outflows		£ 1,715	£ 3,263	£ 10,840	£ 1,584	£ 17,402
Net liquidity gap excluding unrecognised items		£ 1,895	£ 5,655	£ (3,352)	£ (1,469)	£ 2,729
Cumulative net liquidity gap excluding unrecognised items		£ 1,895	£ 7,550	£ 4,198	£ 2,729	

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

38 LIQUIDITY RISK continued

Group As at 31 December 2016	Note	0-3 Months £ mil	4-12 Months £ mil	1-5 Years £ mil	5+ Years £ mil	Total £ mil
Assets						
Cash and cash equivalents	A	£ 1,654	£ -	£ -	£ -	1,654
Derivative financial instruments	E	20	35	248	8	311
- Retail/Lease	B	732	2,441	6,258	14	9,445
- Wholesale	B	755	5,311	45	-	6,111
Loans and advances to customers	B	1,487	7,752	6,303	14	15,556
Operating leases	B	112	134	0	-	246
Other assets	D	168	-	-	88	256
Total asset inflows		£ 3,441	£ 7,921	£ 6,551	£ 110	18,023
Liabilities						
Due to banks and other financial institutions	C	£ 283	£ 1,082	£ 1,376	£ -	2,741
Deposits	C	39	25	5	-	69
Due to parent and related undertakings	C	193	161	844	-	1,198
Debt securities in issue	C	638	1,130	7,740	1,631	11,139
Derivative financial instruments	E	10	14	9	2	35
Other liabilities	D	94	42	4	-	140
Subordinated loans	D	-	7	36	308	351
Total liability outflows		£ 1,257	£ 2,461	£ 10,014	£ 1,941	£ 15,673
Net liquidity gap excluding unrecognised items		£ 2,184	£ 5,460	£ (3,463)	£ (1,831)	£ 2,350
Cumulative net liquidity gap excluding unrecognised items		£ 2,184	£ 7,644	£ 4,181	£ 2,350	

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

38 LIQUIDITY RISK continued

Company		0-3	4-12	1-5	5+	Total
As at 31 December 2017		Months	Months	Years	Years	
		£ mil	£ mil	£ mil	£ mil	£ mil
Assets	Note					
Cash and cash equivalents	A	£ 1,182	£ -	£ -	£ -	1,182
Derivative financial instruments	E	70	59	177	3	309
- Retail/Lease	B	777	2,739	7,039	16	10,571
- Wholesale	B	859	5,564	19	-	6,442
Loans and advances to customers	B	1,636	8,303	7,058	16	17,013
Operating leases	B	152	137	-	-	289
Other assets	D	517	(4)	4	95	612
Total asset inflows		£ 3,557	£ 8,495	£ 7,239	£ 114	19,405
Liabilities						
Due to banks and other financial institutions	C	£ 176	£ 194	£ 521	£ -	891
Deposits	C	207	148	34	-	389
Due to parent and related undertakings	C	488	1,376	2,975	553	5,392
Debt securities in issue	C	593	1,466	6,808	675	9,542
Derivative financial instruments	E	8	3	6	1	18
Other liabilities	D	134	30	21	21	206
Subordinated loans	D	-	7	39	334	380
Total liability outflows		£ 1,606	£ 3,224	£ 10,404	£ 1,584	16,818
Net liquidity gap excluding unrecognised items		£ 1,951	£ 5,271	£ (3,165)	£ (1,470)	£ 2,587
Cumulative net liquidity gap excluding unrecognised items		£ 1,951	£ 7,222	£ 4,057	£ 2,587	

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

38 LIQUIDITY RISK continued

Company As at 31 December 2016		0-3 Months £ mil	4-12 Months £ mil	1-5 Years £ mil	5+ Years £ mil	Total £ mil
Assets	Note					
Cash and cash equivalents	A	£ 1,314	£ -	£ -	£ -	1,314
Derivative financial instruments	E	20	35	247	8	310
- Retail/Lease	B	703	2,351	6,054	14	9,122
- Wholesale	B	739	5,141	44	-	5,924
Loans and advances to customers	B	1,442	7,492	6,098	14	15,046
Operating leases	B	112	134	-	-	246
Other assets	D	349	-	-	88	437
Total asset inflows		£ 3,237	£ 7,661	£ 6,345	£ 110	17,353
Liabilities						
Due to banks and other financial institutions	C	£ 78	£ 359	£ 611	£ -	1,048
Deposits	C	39	25	5	-	69
Due to parent and related undertakings	C	483	1,395	2,569	-	4,447
Debt securities in issue	C	492	626	6,308	1,631	9,057
Derivative financial instruments	E	8	12	8	1	29
Other liabilities	D	87	41	4	-	132
Subordinated loans	D	-	7	36	308	351
Total liability outflows		£ 1,187	£ 2,465	£ 9,541	£ 1,940	15,133
Net liquidity gap excluding unrecognised items		£ 2,050	£ 5,196	£ (3,196)	£ (1,830)	2,220

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

38 LIQUIDITY RISK continued

Basis of liquidity risk analysis

The tables within this note analyse 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 34 '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. Accordingly FCE's expected liquidity position based on cash inflows and outflows is more favourable than as presented within this note.

Available for use credit facilities

Unsecured credit facilities granted by financial institutions to the Group and Company

At 31 December 2017 the Company had £1,117.3 million (2016: £1,078.2 million) contractually committed unsecured credit facilities with financial institutions, of which £359.5 million (2016: £376.6 million) was utilised. The remaining undrawn amounts totaling £757.7 million (2016: £701.6 million) are available for use and reported within the Liquidity Risk tables as 'Available for use credit facilities – Granted by financial institutions to the Group/Company'. The Group also includes £117.1 million of contractually committed unsecured credit facilities in FCE's subsidiaries, of which £106.3 million was utilised at 31 December 2017.

Unsecured credit facilities granted by Ford Credit to the Group and Company

A €1.5 billion (2016: €1.5 billion) short term revolving facility has been provided by FORD CREDIT to the Group which matures on 1 December 2018 or earlier upon 45 days' notice from FORD CREDIT. As at 31 December 2017 no amounts had been drawn under this facility (2016: nil).

Available committed securitisation capacity to the Group

FCE maintains committed securitisation capacity consisting of agreements with banks and asset backed commercial paper conduits under which these parties are contractually obligated, at FCE's option, to purchase eligible receivables, or make advances under asset backed securities. At 31 December 2017, £1.1 billion (2016: £0.5 billion) of private revolving committed securitisation capacity was available.

Liquid assets of the Group and Company

Included within 'Cash and cash equivalents' is £1,072 million (2016: £1,205 million) of cash and cash equivalents held centrally, primarily as deposits eligible under the PRA's definition of High Quality Liquid Assets (£1,069 million), both to meet regulatory requirements and to provide liquidity for short-term funding needs and flexibility in the use of other funding programmes.

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 10):
	<ul style="list-style-type: none"> '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:
	<ul style="list-style-type: none"> Retail finance and lease contracts and operating lease vehicles (reported within Note 17 'Property and equipment') generally require customers to pay equal monthly installments over the life of the contract. Wholesale financing for new and used vehicles held in dealers inventory - A bullet repayment schedule is utilised as the principal is typically repaid in one lump sum at the end of the financing period.
C	Classified based on the earliest possible contractual due date.
D	Classified according to the remaining period to maturity, including 'Restricted Cash' which are assumed to be amounts typically not available for use in day to day operations classified based on the latest possible repayment date.
E	Forward foreign exchange contracts, cross currency interest rate swaps and interest rate swaps are presented as settled on a net basis.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

39 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Detailed on the following page is a comparison by category of the carrying values and fair values of the financial assets and financial liabilities.

Fair value is obtained by calculating the amount at which an asset or liability could be exchanged in an arm's length transaction between informed and willing parties other than in a forced liquidation.

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

Financial assets

'**Cash and cash equivalents**' are measured at fair value. This is approximated to carrying value for floating rate placements and overnight deposits.

'**Accounts receivable**' and '**Loans receivable**' are measured at fair value for the purposes of disclosure. The carrying value is a reasonable approximation of fair value due to the short term nature of these assets.

'**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 principal 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. Our assumptions regarding average maturity profile and credit losses are based on historical performance. The fair value of finance receivables is categorised within Level 3 of the hierarchy.

Derivative financial instruments

The fair values of derivatives are calculated using market rates and industry standard valuation models. All derivatives are included in assets when the fair value is positive and in liabilities when the fair value is negative.

Financial liabilities

'**Debt**' is measured at fair value for purposes of disclosure using quoted prices for our own debt with approximately the same remaining maturities, where possible. Where quoted prices are not available, we estimate 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, we assume the carrying value is a reasonable approximation of fair value. The fair value of debt is categorised within Level 2 of the hierarchy.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

39 FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

As at 31 December	Note	Carrying Value		Fair Value	
		2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
COMPANY FINANCIAL ASSETS					
Financial assets at fair value through profit or loss					
Cash and cash equivalents	10	£ 1,182	£ 1,314	£ 1,182	£ 1,314
Derivative financial instruments	11	332	345	332	345
Financial assets at amortised cost					
Accounts receivable	12	£ 297	£ 190	£ 297	£ 191
Loans receivable	12	197	130	197	130
Restricted cash	12	90	88	90	88
Loans and advances to customers	13				
Retail		8,685	7,558	8,880	7,829
Finance Lease		1,222	957	1,222	957
Wholesale/other		6,327	5,799	6,327	5,799
COMPANY FINANCIAL LIABILITIES					
Financial liabilities at fair value through profit or loss					
Derivative financial instruments	11	£ 18	£ 34	£ 18	£ 34
Financial liabilities at amortised cost					
-Listed Debt:					
Debt securities in issue (a)	26	£ 9,051	£ 8,427	£ 9,065	£ 8,448
-Unlisted Debt:					
Due to banks & other financial institutions	23	890	1,045	889	1,045
Deposits	24	388	69	388	69
Due to parent and related undertakings	25	5,302	4,415	5,306	4,409
Debt securities in issue	26	178	266	182	271
Trade payables	27	104	87	104	87
Subordinated loans	28	334	308	334	306
GROUP FINANCIAL ASSETS					
Financial assets at fair value through profit or loss					
Cash and cash equivalents	10	£ 1,544	£ 1,654	£ 1,544	£ 1,654
Derivative financial instruments	11	334	349	334	349
Financial assets at amortised cost					
Accounts receivables	12	£ 257	£ 139	£ 257	£ 139
Restricted cash	12	90	88	90	88
Loans and advances to customers	13				
Retail		8,720	7,584	8,915	7,859
Finance Lease		1,517	1,233	1,517	1,233
Wholesale/other		6,561	5,983	6,561	5,983
GROUP FINANCIAL LIABILITIES					
Financial liabilities at fair value through profit or loss					
Derivative financial instruments	11	£ 20	£ 38	£ 20	£ 38
Financial liabilities at amortised cost					
-Listed Debt:					
Debt securities in issue (a)	26	£ 11,299	£ 10,507	£ 11,308	£ 10,524
-Unlisted Debt:					
Due to banks & other financial institutions	23	2,077	2,738	2,077	2,739
Deposits	24	388	69	388	69
Due to parent and related undertakings	25	2,436	1,170	2,436	1,170
Debt securities in issue	26	178	266	182	271
Trade payables	27	118	94	118	94
Subordinated loans	28	334	308	337	306

(a) Amount includes an adjustment of £69 million (2016: £117 million) on designated fair value hedges on unsecured debt.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

39 FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

COMPANY							
As at 31 December 2017	Level 1	Level 2	Level 3	Total			
	£ mil	£ mil	£ mil	£ mil			£ mil
Financial assets at fair value through profit or loss							
Cash and cash equivalents	£ 1,182	£ -	£ -	£ 1,182			
Derivative financial instruments	-	332	-	332			
Financial liabilities at fair value through profit or loss							
Derivative financial instruments	£ -	£ 18	£ -	£ 18			
As at 31 December 2016							
	Level 1	Level 2	Level 3	Total			
	£ mil	£ mil	£ mil	£ mil			
Financial assets at fair value through profit or loss							
Cash and cash equivalents	£ 1,314	£ -	£ -	£ 1,314			
Derivative financial instruments	-	345	-	345			
Financial liabilities at fair value through profit or loss							
Derivative financial instruments	£ -	£ 34	£ -	£ 34			
GROUP							
As at 31 December 2017							
	Level 1	Level 2	Level 3	Total			
	£ mil	£ mil	£ mil	£ mil			
Financial assets at fair value through profit or loss							
Cash and cash equivalents	£ 1,544	£ -	£ -	£ 1,544			
Derivative financial instruments	-	334	-	334			
Financial liabilities at fair value through profit or loss							
Derivative financial instruments	£ -	£ 20	£ -	£ 20			
As at 31 December 2016							
	Level 1	Level 2	Level 3	Total			
	£ mil	£ mil	£ mil	£ mil			
Financial assets at fair value through profit or loss							
Cash and cash equivalents	£ 1,654	£ -	£ -	£ 1,654			
Derivative financial instruments	-	349	-	349			
Financial liabilities at fair value through profit or loss							
Derivative financial instruments	£ -	£ 38	£ -	£ 38			

The table above represents the assets and liabilities of the Company and Group that are measured at fair value as at 31 December 2017. FCE's policy is to recognise transfers in and

transfers out at the value at the end of the reporting period. There were no transfers recognised in 2017.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

40 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 31 'Retirement benefit obligations'); the Company has a support agreement with Ford Credit in regard to Shareholders' funds (detailed in Note 29 'Ordinary shares and share premium').

There have been no significant changes in transactions with related parties in the period to 31 December 2017. For further details refer to the following Company and Group disclosures.

Related parties

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

Parent undertakings - this includes FCSH, Ford Credit and Ford. For further information refer to Note 43 'FCE and other related party information'.

Jointly controlled entity - FCE's only jointly controlled entity was Forso for which information has been disclosed in Note 21 'Investment in a joint venture'.

Directors and officers - reported in Note 6 'Transactions with Directors and officers'.

Entities under common control – which includes all subsidiaries of Ford except for those entities already reported within 'Subsidiaries of the company' and 'Parent undertakings'. Transactions reported in this category include:

- Provision of approved lines of credit, mortgages, working capital and other types of loans to dealers in which Ford maintains a controlling interest;
- The receipt of interest income from Ford and its related companies arising from loans, interest supplements and other support costs in regard to a variety of retail, lease and wholesale finance plans;
- Guarantees provided on behalf of other related parties of which further details can be found within Note 34 'Contingent liabilities';
- Guarantees received from other related parties includes primarily guarantees for future residual value gain or losses relating to certain operating lease vehicles and also includes guarantees for certain wholesale vehicle finance plans.

Due to an arrangement with Ford relating to FCE's operating lease portfolio, under which Ford indemnifies FCE for the majority of residual value losses and receives the benefit of the majority of residual value gains, a net receipt of £7.6 million was received from Ford in the period. (2016: £4.1 million net payment to Ford).

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 25, Due to Parent and Related Undertakings and Note 34 'Contingent Liabilities.'

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

40 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		Joint venture	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
Accounts receivable								
Accounts receivable at 1 January	£ 55	£ 50	£ 2	£ 2	£ 79	£ 49	£ -	£ -
Additions to accounts receivable during the year	10,951	14,023	10	10	4,279	3,728	3	3
Repayments during the year (Footnote 3)	(10,956)	(14,018)	(10)	(10)	(4,212)	(3,698)	(3)	(3)
Accounts receivable at 31 December	£ 50	£ 55	£ 2	£ 2	£ 146	£ 79	£ -	£ -
Loans								
Loans outstanding at 1 January	£ 130	£ 154	£ -	£ -	£ 333	£ 352	£ -	£ -
Loans issued during the year	162	412	-	-	3,427	3,409	-	-
Loan repayments during the year (Footnote 3)	(95)	(436)	-	-	(3,416)	(3,428)	-	-
Loans outstanding at 31 December	£ 197	£ 130	£ -	£ -	£ 344	£ 333	£ -	£ -
Investment in group undertakings (Note 22)								
Cost at 1 January	£ 62	£ 77	£ -	£ -	£ 4	£ -	£ -	£ -
Additional investments during the year	19	-	-	-	-	-	-	-
Reduction of investments during the year	(3)	(15)	-	-	(1)	-	-	-
Poland Branch Merger	-	-	-	-	-	4	-	-
Cost at 31 December	£ 78	£ 62	£ -	£ -	£ 3	£ 4	£ -	£ -
Accounts payable and accrued interest								
Accounts payable at 1 January	£ 30	£ 20	£ 10	£ 7	£ 140	£ 123	£ -	£ -
Additions to accounts payable during the year	11,522	4,270	98	80	52,179	47,505	-	-
Repayments during the year (Footnote 3)	(11,520)	(4,260)	(99)	(77)	(52,177)	(47,488)	-	-
Accounts payable at 31 December	£ 32	£ 30	£ 9	£ 10	£ 142	£ 140	£ -	£ -
Senior debt and subordinated loans								
Senior debt and subordinated loans at 1 January	£ -	£ -	£ 1,286	£ 752	£ 34	£ 13	£ -	£ -
Received during the year	-	-	2,147	844	351	55	-	-
Repaid during the year (Footnote 3)	-	-	(899)	(310)	(317)	(34)	-	-
Senior debt and subordinated loans at 31 December	£ -	£ -	£ 2,534	£ 1,286	£ 68	£ 34	£ -	£ -
Net cash proceeds from the sale of receivables								
Net cash proceeds from the sale of receivables at 1 January	£ 3,223	£ 2,919	£ -	£ -	£ -	£ -	£ -	£ -
Additions during the year	31,927	29,460	-	-	-	-	-	-
Repayments during the year	(32,298)	(29,156)	-	-	-	-	-	-
Net cash proceeds from the sale of receivables at 31 December	£ 2,852	£ 3,223	£ -	£ -	£ -	£ -	£ -	£ -
Revenue								
Interest supplements earned on loans and advances	£ -	£ -	£ -	£ -	£ 326	£ 279	£ -	£ -
Interest income related parties	-	1	-	-	6	5	-	-
Supplements relating to operating leases	-	-	-	-	257	176	-	-
Expense								
Interest expense	£ -	£ -	£ 22	£ 17	£ -	£ -	£ -	£ -
Service fees paid/(received) (Footnote 1)	(18)	(4)	14	14	9	8	-	(3)
Guarantees								
Guarantees provided (Note 34)	£ -	£ 1	£ -	£ -	£ 32	£ 27	£ -	£ -
Commitments to lend (Footnote 3)	-	-	-	-	-	-	-	-
Guarantees received	-	-	-	-	99	81	-	-
Group tax relief (Footnote 2)	£ -	£ -	£ -	£ -	£ 174	£ 111	£ -	£ -
Dividends paid (Note 30)	£ -	£ -	£ 35	£ 50	£ -	£ -	£ -	£ -
Dividends received	£ 12	£ -	£ -	£ -	£ -	£ -	£ -	£ -
Derivatives								
Derivatives year end positive fair value	£ -	£ -	£ -	£ -	£ -	£ 7	£ -	£ -
Derivatives year end negative fair value	-	-	-	-	1	3	-	-

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

40 RELATED PARTY TRANSACTIONS continued

Group	Parent undertakings		Entities under common control		Joint venture	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
Accounts receivable						
Accounts receivable at 1 January	£ 2	£ 2	£ 81	£ 51	£ -	£ -
Additions to accounts receivable during the year	10	10	4,336	3,767	3	3
Repayments during the year (Footnote 3)	(10)	(10)	(4,266)	(3,737)	(3)	(3)
Accounts receivable at 31 December	£ 2	£ 2	£ 151	£ 81	£ -	£ -
Loans receivable						
Loans receivable at 1 January	£ -	£ -	£ 333	£ 352	£ -	£ -
Issued during the year	-	-	3,427	3,409	-	-
Repayments during the year (Footnote 3)	-	-	(3,416)	(3,428)	-	-
Loans receivable at 31 December	£ -	£ -	£ 344	£ 333	£ -	£ -
Investment in jointly controlled entity						
Investment at 1 January	£ -	£ -	£ 4	£ -	£ 55	£ 44
Dividend received during the year	-	-	-	-	-	-
Share of net income during the year	-	-	-	-	3	5
Poland Branch Merger	-	-	-	4	-	-
Reduction of investments during the year	-	-	(1)	-	(63)	-
Foreign currency translation adjustment	-	-	-	-	5	6
Investment at 31 December	£ -	£ -	£ 3	£ 4	£ -	£ 55
Accounts payable and accrued interest						
Accounts payable at 1 January	£ 10	£ 7	£ 148	£ 134	£ -	£ -
Additions during the year	97	84	54,809	50,330	-	-
Repayments during the year (Footnote 3)	(98)	(81)	(54,797)	(50,316)	-	-
Accounts payable at 31 December	£ 9	£ 10	£ 160	£ 148	£ -	£ -
Senior debt and subordinated loans						
Senior debt and subordinated loans at 1 January	£ 1,286	£ 752	£ 34	£ 40	£ -	£ -
Received during the year	2,147	844	351	55	-	-
Repaid during the year (Footnote 3)	(899)	(310)	(317)	(61)	-	-
Senior debt and subordinated loans at 31 December	£ 2,534	£ 1,286	£ 68	£ 34	£ -	£ -
Revenue						
Interest supplements earned on loans and advances	£ -	£ -	£ 337	£ 293	£ -	£ -
Interest income related parties	-	-	6	5	-	-
Supplements relating to operating leases	-	-	257	176	-	-
Expense						
Interest expense	£ 22	£ 17	£ -	£ -	£ -	£ -
Service fees paid/(received) (Footnote 1)	14	14	9	9	-	(3)
Guarantees						
Guarantees provided (Note 34)	£ -	£ -	£ 32	£ 27	£ -	£ -
Guarantees received	-	-	99	81	-	-
Group tax relief (Footnote 2)	£ -	£ -	£ 174	£ 111	£ -	£ -
Dividends paid (Note 30)	£ 35	£ 50	£ -	£ -	£ -	£ -
Dividends received	£ -	£ -	£ -	£ -	£ -	£ -
Derivatives						
Derivatives year end positive fair value	£ -	£ -	£ -	£ 7	£ -	£ -
Derivatives year end negative fair value	-	-	1	3	-	-

Footnotes:

- Service fees received or paid** - FCE receives technical and administrative advice and services from Ford and its related companies, occupies office space furnished and provided by them and its related companies and utilises data processing facilities maintained by them. The costs of these services are charged to 'Operating expenses'.
- Group tax relief** are losses claimed from related UK companies to shelter FCE's UK tax profits.
- 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 2017

41 SEGMENT REPORTING

41a) Performance measurement figures

	UK	Germany	Italy	Spain	France	Central / Other	Total
	2017	2017	2017	2017	2017	2017	2017
	\$ mil	\$ mil	\$ mil	\$ mil	\$ mil	\$ mil	\$ mil
Market income	\$ 321	\$ 287	\$ 115	\$ 57	\$ 67	\$ 170	\$ 1,017
Borrowing costs	(117)	(51)	(23)	(11)	(12)	(30)	(244)
Operating expenses	(83)	(113)	(35)	(22)	(25)	(68)	(346)
Impairment losses	(7)	(8)	(7)	(3)	(1)	(2)	(28)
All other	3	(56)	-	(1)	-	2	(52)
Profit before tax (PBT)	\$ 117	\$ 59	\$ 50	\$ 20	\$ 29	\$ 72	\$ 347
Net receivables	\$ 7,706	\$ 6,964	\$ 2,772	\$ 1,313	\$ 1,596	\$ 3,181	\$ 23,532

	UK	Germany	Italy	Spain	France	Central / Other	Total
	2016	2016	2016	2016	2016	2016	2016
	\$ mil	\$ mil	\$ mil	\$ mil	\$ mil	\$ mil	\$ mil
Market income	\$ 356	\$ 272	\$ 94	\$ 54	\$ 59	\$ 140	\$ 975
Borrowing costs	(143)	(53)	(22)	(12)	(14)	(31)	(275)
Operating expenses	(83)	(170)	(29)	(22)	(24)	(73)	(401)
Impairment losses	(9)	(5)	(6)	(8)	(1)	-	(29)
All Other	1	(39)	(1)	-	-	-	(39)
Profit before tax (PBT)	\$ 122	\$ 5	\$ 36	\$ 12	\$ 20	\$ 36	\$ 231
Net receivables	\$ 6,392	\$ 5,829	\$ 1,973	\$ 925	\$ 1,191	\$ 2,536	\$ 18,846

In line with the focus of management review and the requirements of IFRS 8 'Operating Segments', the performance of the five major geographical markets (UK, Germany, Italy, Spain and France) is separately reported. The performance of the five major markets ('Reportable Segments') constitute over 80% of external revenue and have been analysed as separate reportable segments above and on page 100 with all other markets and operations combined under 'Other/Central Office' as detailed below. Central Office includes various operations providing support to the Company's branches and subsidiaries, the costs of which are allocated to the location benefiting from the service.

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

Segmental data is based on the consolidated statement of profit and loss and other comprehensive income and statement of financial position as reported to the Executive Committee ('EC') in US dollars under US Generally Accepted Accounting Practice (GAAP) on a Risk Based Equity (RBE) basis excluding fair value adjustments to financial instruments and foreign exchange adjustments (refer to 'Definitions' as detailed on page 131 for a definition of RBE).

The EC assesses performance of FCE's branches and subsidiaries from a geographical perspective and allocates resources based on this information. Performance measurement figures include the following:

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

'Borrowing costs' represents the costs associated with locally and centrally sourced funding (both unsecured and securitisation), and is presented on an RBE basis. The RBE process allocates equity based on an assessment of the inherent risk in each location's portfolio, and the borrowing cost is adjusted versus that reported under IFRS, to reflect the cost impact of changes in the level of debt that would be required to match the revised equity requirements. Central funding and derivative costs, including the costs of holding a liquidity buffer, are allocated to locations.

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

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

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

'Net receivables' are managed on a US GAAP basis excluding the 'provision for incurred losses' and 'unearned interest supplements from related parties' and including FCE's net investment in motor vehicles held for use by FCE as the lessor under operating leases.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

41 SEGMENT REPORTING continued

41b) IFRS basis

	Note	UK		Germany		Italy		Spain		France		Central / Other		Total
		2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017
		£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
INCOME STATEMENT														
Retail revenue		£ 155	£ 117	£ 49	£ 22	£ 17	£ 39	£ 399						
Wholesale revenue		78	43	26	18	23	55	243						
Other income		11	2	-	-	-	11	24						
Fee and commission income		9	11	15	3	19	7	64						
Income from operating leases		-	299	-	-	-	4	303						
Total external revenue		£ 253	£ 472	£ 90	£ 43	£ 59	£ 116	£ 1,033						
Inter-segment revenue		-	-	-	-	-	-	-						
Total Revenue		£ 253	£ 472	£ 90	£ 43	£ 59	£ 116	£ 1,033						
Depreciation of property and equipment	17	-	(287)	-	-	-	(5)	(292)						
Amortisation of other intangibles	20	-	-	-	-	-	(2)	(2)						
Profit before tax		£ 100	£ 31	£ 22	£ 8	£ 18	£ 104	£ 283						
ASSETS														
Net loans and advances to customers	13	£ 5,556	£ 4,767	£ 2,028	£ 964	£ 1,156	£ 2,327	£ 16,798						
Property and equipment	17	1	291	-	-	-	2	294						
Investment in jointly controlled entity	21	-	-	-	-	-	-	-						
Total assets		£ 5,993	£ 6,081	£ 2,148	£ 1,031	£ 1,189	£ 3,156	£ 19,598						

	Note	UK		Germany		Italy		Spain		France		Central / Other		Total
		2016	2016	2016	2016	2016	2016	2016	2016	2016	2016	2016	2016	
		£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
INCOME STATEMENT														
Retail revenue		£ 155	£ 109	£ 36	£ 18	£ 16	£ 34	£ 368						
Wholesale revenue		93	45	23	19	22	55	257						
Other income		3	1	-	-	-	4	8						
Fee and commission income		10	7	10	2	10	8	47						
Income from operating leases		-	208	-	-	-	5	213						
Total external revenue		£ 261	£ 370	£ 69	£ 39	£ 48	£ 106	£ 893						
Inter-segment revenue		0	-	-	-	-	(0)	-						
Total Revenue		£ 261	£ 370	£ 69	£ 39	£ 48	£ 106	£ 893						
Depreciation of property and equipment	17	-	(197)	-	-	-	(6)	(203)						
Amortisation of other intangibles	20	-	-	-	-	-	(2)	(2)						
Profit before tax		£ 116	£ 9	£ 16	£ 4	£ 10	£ 23	£ 178						
ASSETS														
Net loans and advances to customers	13	£ 5,092	£ 4,401	£ 1,583	£ 746	£ 947	£ 2,031	£ 14,800						
Property and equipment	17	2	244	-	-	-	6	252						
Investment in jointly controlled entity	21	-	-	-	-	-	55	55						
Total assets		£ 5,290	£ 5,555	£ 1,643	£ 798	£ 973	£ 3,367	£ 17,626						

IFRS Basis

The table above provides additional segmental information on an IFRS basis which includes fair value adjustments to financial instruments and foreign exchange adjustments and excludes RBE analytical adjustments. The information produced in 42b 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 organization 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 42b reflects the transfer pricing method.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

41 SEGMENT REPORTING continued

41c) Reconciliation between performance measurement and IFRS figures

	Market Income 2017 mil	Borrowing Costs 2017 mil	Operating Expenses 2017 mil	Impairment Losses 2017 mil	PBT 2017 mil	Net Receivables 2017 mil
Performance measurement figures						
Reportable segments	\$ 847	\$ (214)	\$ (278)	\$ (26)	\$ 275	\$ 20,351
Central operations / other	170	(30)	(68)	(2)	72	3,181
Total	\$ 1,017	\$ (244)	\$ (346)	\$ (28)	\$ 347	\$ 23,532
Converted to GBP	£ 770	£ (189)	£ (268)	£ (22)	£ 251	£ 17,407
IFRS vs US GAAP	1	-	-	-	-	-
Presentational differences						
Operating leases	248	-	-	-	-	(290)
Unearned interest supplements	-	-	-	-	-	(272)
Provision for incurred losses	-	-	-	-	-	(44)
Fees and commission expense	9	-	-	-	-	-
Residual gains / losses / reserve	3	-	-	-	-	(3)
Other and presentational differences	2	(12)	8	1	2	(0)
Adjustments	-	-	-	-	-	-
Risk based equity adjustment	-	14	-	-	14	-
Other performance adjustments	-	6	-	-	16	-
Total reconciliation to IFRS	£ 1,033	£ (181)	£ (260)	£ (21)	£ 283	£ 16,798

	Market Income 2016 mil	Borrowing Costs 2016 mil	Operating Expenses 2016 mil	Impairment Losses 2016 mil	PBT 2016 mil	Net Receivables 2016 mil
Performance measurement figures						
Reportable segments	\$ 835	\$ (244)	\$ (328)	\$ (29)	\$ 195	\$ 16,310
Central operations / other	140	(31)	(73)	-	36	2,536
Total	\$ 975	\$ (275)	\$ (401)	\$ (29)	\$ 231	\$ 18,846
Converted to GBP	£ 712	£ (201)	£ (300)	£ (21)	£ 161	£ 15,298
IFRS vs US GAAP	2	-	4	-	5	-
Presentational differences						
Operating leases	172	-	-	-	-	(246)
Unearned interest supplements	-	-	-	-	-	(205)
Provision for incurred losses	-	-	-	-	-	(42)
Fees and commission expense	6	-	-	-	-	-
Residual gains / losses / reserve	4	-	-	-	-	(5)
Other and presentational differences	(3)	(5)	4	(1)	3	0
Adjustments	-	-	-	-	-	-
Risk based equity adjustment	-	12	-	-	12	-
Other performance adjustments	-	4	-	-	(3)	-
Total reconciliation to IFRS	£ 893	£ (190)	£ (292)	£ (22)	£ 178	£ 14,800

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

41 SEGMENT REPORTING continued

41c) Reconciliation between performance measurement and IFRS figures continued

This section commences with the performance measurement figures for FCE's Reportable Segments plus 'Central/Other' operations detailed in 41a 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 41b.

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.

'Impairment losses' represent Impairment losses on loans and advances.

'Presentational differences' EC reviews levels of 'net receivables' as a key performance measure. This includes

operating leases (reported within the IFRS balance sheet within 'Property and equipment') excluding deferred loan origination costs, unearned finance income, interest supplements from related parties, provisions for incurred losses and vehicle residual value losses. Other differences within this category represent minor presentational differences between performance measurement and IFRS reporting.

'Adjustments' RBE performance adjustment allocates equity based on an assessment of the inherent risk in each location's portfolio. Borrowing costs are adjusted versus that reported under IFRS, to reflect the cost impact of changes in the level of debt that would be required to match the revised equity requirements. The RBE adjustment enables the evaluation of the risk/return of individual locations.

'Other Performance Adjustments' includes the impact to earnings of fair value adjustments to financial instruments and foreign exchange adjustments. Primarily related to movements in market rates, these are excluded from EC performance measurement as FCE's risk management activities are administered on a centralised basis.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

42 NOTES TO STATEMENT OF CASH FLOWS

	Company		Group	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
Cash flows from operating activities				
Profit before tax*	£ 237	£ 153	£ 283	£ 178
Adjustments for:				
Depreciation expense on property and equipment	1	1	1	1
Depreciation expense on operating lease vehicles	291	202	291	202
Effects of foreign currency translation	46	305	46	292
Impairment of goodwill	121	-	-	-
Gross impaired losses on loans and advances	42	37	42	38
Share of net income in a joint venture	-	-	(3)	(5)
Amortisation of other intangibles	2	2	2	2
Fair value adjustments to financial instruments	(55)	(287)	(56)	(285)
Interest expense	179	185	181	190
Interest income	(624)	(600)	(647)	(630)
Other operating income	(334)	(215)	(322)	(216)
Changes in operating assets and liabilities:				
Net increase/(decrease) in accrued liabilities and deferred income	3	(40)	3	(40)
Net decrease in deferred charges and prepaid expenses	27	41	27	39
Net increase in finance receivables	(1,679)	(1,196)	(1,768)	(1,224)
Purchase of vehicles for operating leases	(828)	(644)	(828)	(644)
Proceeds from sale of operating lease vehicles	511	423	511	423
Net decrease/(increase) in vehicles awaiting resale	7	(38)	7	(38)
Net (increase)/decrease in accounts receivables	(1)	1	(2)	2
Net increase in accounts payables	15	29	21	28
Net (increase)/decrease in accounts receivables from related undertakings	(74)	54	3	5
Net increase in accounts payables to related undertakings	17	29	26	22
Cash used in operating activities	£ (2,096)	£ (1,558)	£ (2,182)	£ (1,660)

* Adjusted PBT of the Company taking out the one-off effect of goodwill and gain on sale of Forso is £290 million.

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

42 NOTES TO STATEMENT OF CASH FLOWS continued

	Company		Group	
	2017 £ mil	2016 £ mil	2017 £ mil	2016 £ mil
At beginning of period:				
Cash and cash equivalents	£ 1,314	£ 1,329	£ 1,654	£ 1,669
Balance at 1 January 2017 and 2016	£ 1,314	£ 1,329	£ 1,654	£ 1,669
At end of period:				
Cash and cash equivalents	£ 1,182	£ 1,314	£ 1,544	£ 1,654
Balance at 31 December 2017 and 2016	£ 1,182	£ 1,314	£ 1,544	£ 1,654
Net (decrease)/increase in cash and cash equivalents				
Cash and cash equivalents at beginning of period	£ 1,314	£ 1,329	£ 1,654	£ 1,669
Cash and cash equivalents at end of period	1,182	1,314	1,544	1,654
Net decrease in cash and cash equivalents	£ (132)	£ (15)	£ (110)	£ (15)

Company

For the year ended 31 December

	2016 £ mil	Cashflow £ mil	Non-Cash Changes				2017 £ mil
			Foreign exchange movement £ mil	Fair value changes £ mil	Gain/Loss £ mil	Other £ mil	
Debt securities and loans provided by banks and other financial institutions	£ 12,648	£ (217)	£ 327	£ (41)	£ -	£ (1)	£ 12,716
Funds provided by parent and related undertakings	1,318	1,220	15	6	-	46	2,605
Short term borrowings	333	(62)	5	-	-	-	276
Deposits	69	319	-	-	-	-	388
Derivative financial instruments	(311)	37	(5)	44	(50)	(29)	(314)
Restricted cash	(88)	(1)	(1)	-	-	-	(90)
Total liabilities from financing activities	£ 13,969	£ 1,296	£ 341	£ 9	£ (50)	£ 16	£ 15,581

GROUP

For the year ended 31 December

	2016 £ mil	Cashflow £ mil	Non-Cash Changes				2017 £ mil
			Foreign exchange movement £ mil	Fair value changes £ mil	Gain/Loss £ mil	Other £ mil	
Debt securities and loans provided by banks and other financial institutions	£ 13,124	£ (205)	£ 334	£ (50)	£ -	£ (5)	£ 13,198
Funds provided by parent and related undertakings	1,318	1,293	15	6	-	(27)	2,605
Short term borrowings	410	(50)	9	-	-	-	369
Deposits	69	319	-	-	-	-	388
Derivative financial instruments	(311)	32	(5)	44	(50)	(24)	(314)
Restricted cash	(88)	(1)	(1)	-	-	-	(90)
Total liabilities from financing activities	£ 14,522	£ 1,388	£ 352	£ -	£ (50)	£ (56)	£ 16,156

Notes to the Consolidated Financial Statements for the Year ended 31 December 2017

43 FCE AND OTHER RELATED PARTY INFORMATION

Domicile: United Kingdom (UK).

Legal form: The Company is a regulated bank, authorised as a deposit taking, consumer credit and insurance intermediary business under the Financial Services and Markets Act 2000 and in accordance with the Financial Services Act 2012 and is authorised by the PRA and regulated by the FCA and PRA. In addition to the UK, the Company has branches in 11 other European countries having exercised passport rights to undertake regulated activities in these countries pursuant to the Banking Consolidation and Insurance Mediation Directives.

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

Registered office: Central Office - Eagle Way, Brentwood, Essex, CM13 3AR. Registered in England and Wales no 00772784.

The Company has one UK subsidiary (see Note 22 'Investments in other entities' which shares the same registered office as the Company.

In addition, the Company has subsidiaries in the Czech Republic, Hungary, Germany and Switzerland.

Nature of operations and principal activities: FCE's primary business is to support the sale of Ford vehicles in Europe through the respective dealer networks. A variety of retail, leasing and wholesale finance plans are provided in the markets which FCE operates.

In European markets, FCE offers most of its products and services under the Ford Credit or Ford Bank brands—refer to 'European operating locations' page for further details. The Company, through its Worldwide Trade Finance (WWTF) division, provides financing to importers and distributors in countries where typically there is no established local Ford presence. WWTF currently provides finance in about 70 countries. In addition, there are private label operations in some European markets.

Immediate parent undertaking: All of the 614,384,050 Ordinary £1 shares of FCE are owned by FCSH GmbH. FCSH does not produce consolidated accounts it being wholly owned by, and consolidated into the accounts of Ford Credit. For further details refer to Note 29 'Ordinary shares and share premium'.

Ultimate parent undertaking: The ultimate parent undertaking and controlling party is Ford Motor Company (Ford). Ford, FCI and Ford Credit are all incorporated in the United States of America. FCSH is incorporated in Switzerland.

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

44 Events after the Reporting Period

There were no reportable events after the reporting period.

European operating locations

The following table details the countries in which FCE operates through a branch or a subsidiary.

Location	Address
<u>The Company's Branch locations</u>	
AUSTRIA	Ford Bank Austria Zweigniederlassung der FCE Bank plc, Fuerbergstrasse 51, Postfach 2, A -5020 Salzburg
BELGIUM	FCE Bank plc, Hunderenveldlaan 10, B-1082 Brussels (also conducts business in Luxembourg)
BRITAIN	FCE Bank plc, Central Office, Eagle Way, Brentwood, Essex CM13 3AR (For a full list of UK subsidiaries refer to Note 22)
FRANCE	FCE Bank plc, Succursale France, 34 Rue de la Croix de Fer, Saint-Germain-en-Laye, 78174
GERMANY	Ford Bank Niederlassung der FCE Bank plc, Josef-Lammerting-Allee 24-34, 50933 Köln
GREECE	FCE Bank plc, Akakion 39 and Monemvasias, 15125 Marousi, Athens
IRELAND	FCE Bank plc, Elm Court, Boreenmanna Road, Cork 999937 IE
ITALY	FCE Bank plc, Via Andrea Argoli 54, 00143 Rome
NETHERLANDS	FCE Bank plc, Amsteldijk 216/217, Postbus 795, 1000 AT, Amsterdam
PORTUGAL	FCE Bank plc, Av. Liberdade, n° 249 - 5° Andar, 1250-143 Lisboa, Parish de Coração de Jesus
SPAIN	FCE Bank plc Sucursal en España, Calle Caléndula, 13, 28109 Alcobendas, Madrid
POLAND	FCE Bank SA Oddział w Polsce, Marynarska Business Park, Tasmowa 7, 02-677 Warsaw
<u>The Group: FCE's European subsidiaries</u>	
CZECH REPUBLIC	FCE Credit, s.r.o., Nile House, Karolinská 654/2, 186 00 Prague 8
HUNGARY	FCE Credit Hungária Zrt/FCE Services Szolgáltató Kft, 1138 Budapest, Népfürdő utca 22., Hungary
SWITZERLAND	Ford Credit (Switzerland) GmbH, Geerenstrasse 10, 8304 Wallisellen
GERMANY	Ford Financial GmbH, Josef-Lammerting-Allee 24-34, 50933 Köln



Pillar 3 Disclosures (excl. Remuneration)

Unaudited

Pillar 3 Disclosures

Overview of Pillar 3 Disclosures

The following table provides an overview of where information on each Pillar 3 requirement can be found in the

Annual Report. Any disclosure requirement not listed in the table has been omitted as it is not relevant to FCE.

Pillar 3 disclosure requirement	Brief description of requirement	Reference
Scope of consolidation	<ul style="list-style-type: none"> - Any differences in the basis of consolidation for accounting & prudential purposes - Disclose if made use of provision allowing individual consolidation 	- 'Pillar 3 Disclosures' - Basis of disclosure; page 109
Risk management objectives and policies	<ul style="list-style-type: none"> - Risk management & objectives for each risk category - An approved declaration on risk management adequacy - An approved risk statement on the risk profile of the business strategy - Governance arrangements 	<ul style="list-style-type: none"> - 'Business Environment'; pages 10-15 - 'Directors' Report'; page 24 - 'Business Environment'; page 10 - 'Governance'; pages 18 - 21
Own funds	<ul style="list-style-type: none"> - Reconciliation to financial statements - Calculation of Own funds - Terms & conditions of capital instruments 	<ul style="list-style-type: none"> - 'Pillar 3 Disclosures' - Tables 1 & 2; page 110 - 'Pillar 3 Disclosures' - Table 14; page 121 - 'Pillar 3 Disclosures' – Table 15; page 122
Capital requirements	<ul style="list-style-type: none"> - Approach to assessing internal capital adequacy - 8% of the risk weighted exposure amounts for credit risk for each exposure class - Own funds requirement for foreign exchange risk and operational risk 	<ul style="list-style-type: none"> - 'Business Performance'; page 8 - 'Pillar 3 Disclosures' - Table 6; page 113 - 'Pillar 3 Disclosures' - Table 5; page 112
Exposure to counterparty credit risk	<ul style="list-style-type: none"> - Method used to assign credit limits for counterparty credit exposures - Policies for the use of collateral and netting for counterparty credit exposures - Measures for counterparty credit risk exposure values - Notional value of credit derivatives and credit derivative hedges 	<ul style="list-style-type: none"> - Note 35 - Credit risk; page 83 - Note 35 – Credit risk; page 83 and Note 37 – Market risk; page 85 - 'Pillar 3 Disclosures' - Table 11; page 118 - N/A. FCE does not use credit derivatives
Capital buffers	<ul style="list-style-type: none"> - Information in relation to compliance with the counter-cyclical buffer requirement 	- 'Pillar 3 Disclosures' - Table 16 & Table 17; page 123
Analysis of credit risk exposures	<ul style="list-style-type: none"> - Total exposures & average exposures over the period, both after accounting offsets but before CRM, broken down by exposure class - Geographic distribution of exposures broken down by exposure class - Exposures split by industry or counterparty type (showing SMEs separately), broken down by exposure class - Exposures split by residual maturity, broken down by exposure class 	<ul style="list-style-type: none"> - 'Pillar 3 Disclosures' - Table 6; page 113 - 'Pillar 3 Disclosures' - Table 9; page 116 - 'Pillar 3 Disclosures' - Table 8; page 115 - 'Pillar 3 Disclosures' - Table 10; page 117
Credit risk adjustments	<ul style="list-style-type: none"> - Accounting definitions used for 'past due' & 'impaired' - Description of approach for determining specific & general credit risk adjustments - Impaired & past due exposures, specific & general credit risk adjustments, and charges to those adjustments during the period, broken down by industry or counterparty type - Impaired & past due exposures split by geographical area - Reconciliation of changes in the specific & general credit risk adjustments 	<ul style="list-style-type: none"> - Past Due in 'Pillar 3 disclosures'; page 120 & Impaired in 'Accounting Policies'; page 39 - 'Pillar 3 Disclosures' - Table 12; page 119 - 'Pillar 3 Disclosures' - Table 13; page 120 - 'Pillar 3 Disclosures' - Table 13; page 120 - 'Pillar 3 Disclosures' - Table 12; page 119
Unencumbered assets	<ul style="list-style-type: none"> - Balance sheet value per exposure class broken down by asset quality - Total amount of the balance sheet that is encumbered 	<ul style="list-style-type: none"> - 'Pillar 3 Disclosures' - Tables 3 & 4; page 111 - 'Pillar 3 Disclosures' - Tables 3 & 4; page 111
Use of External Credit Assessment Institutions (ECAIs)	<ul style="list-style-type: none"> - Names of nominated ECAIs - The exposure classes for which each ECAI is used - The exposure values, including those after credit risk mitigation, associated with each credit quality step - The exposure values deducted from own funds 	<ul style="list-style-type: none"> - 'Pillar 3 Disclosures' - Table 7; page 114 - 'Pillar 3 Disclosures' - Table 7; page 114 - 'Pillar 3 Disclosures' - Table 7; page 114 - 'Pillar 3 Disclosures' - Table 7; page 114
Exposure to market risk	<ul style="list-style-type: none"> - Own funds requirement for each risk within market risk 	- 'Pillar 3 Disclosures' - Table 5; page 112
Operational risk	<ul style="list-style-type: none"> - Approaches for assessing own funds requirement that institution qualifies for - Description of factors considered in measurement approach 	<ul style="list-style-type: none"> - 'Business Environment'; page 13 - 'Business Environment'; page 13
Exposure to interest rate risk on positions not included in the trading book	<ul style="list-style-type: none"> - Nature of interest rate risk & frequency of its measurement - Relevant measure used by management for upward/downward shocks, broken down by currency 	<ul style="list-style-type: none"> - Business Environment'; page 14 - Note 37b - Interest rate risk; page 87
Leverage	<ul style="list-style-type: none"> - The leverage ratio (LR) and how any transitional provisions have been applied - A breakdown of the total exposure measure and its reconciliation to the published financial statements - Description of the processes used to manage the risk of excessive leverage - The factors that had an impact on the LR during the period to which the ratio refers 	<ul style="list-style-type: none"> - 'Pillar 3 Disclosures' - Table 19; page 124 - 'Pillar 3 Disclosures' - Table 18 & 19; page 124 - 'Pillar 3 Disclosures' - Table 21; page 125 - 'Pillar 3 Disclosures' - Table 21; page 125
Use of credit risk mitigation (CRM) techniques	<ul style="list-style-type: none"> - Policies & processes for, and the extent to which, on and off-balance sheet netting is used - Description of the main types of collateral taken & the main types of guarantor - Total exposure value covered by eligible collateral 	<ul style="list-style-type: none"> - 'Pillar 3 Disclosures' - Table 1; page 110 - 'Pillar 3 Disclosures' - Table 1; page 110 - 'Pillar 3 Disclosures' - Table 6; page 113

Pillar 3 Disclosures

Overview

This chapter contains the remaining disclosures required by Part Eight of the Capital Requirements Regulation (CRR) not already disclosed elsewhere in this Annual Report or in the separate Remuneration Disclosure published annually on FCE's website www.fcebank.com. All of the disclosures are subject to a thorough internal governance process and those that appear in the Financial Statements have been audited.

Pillar 3 disclosure policy

FCE publishes its Pillar 3 disclosures at least annually, and has a policy in place to assess on a regular basis through the year the need to publish some or all of the disclosures more frequently if there is a significant change in the relevant characteristics of the business. It has also set a Materiality waiver which has been used in some of these disclosures where the mandatory templates specified by the EBA contain rows and columns for items that are not applicable to FCE's business model. Where these have been removed it is stated in the words accompanying the relevant table.

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Basis of disclosure

FCE reports on two prudential consolidation bases. There is no difference between the accounting consolidation referred to as 'Group' in this report and 'FCE Consolidated'. FCE is also required to report to the regulator on a Solo-Consolidated basis, which excludes its non-UK subsidiaries.

This basis is similar to the accounting consolidation referred to as 'Company' in this report although that also excludes the structured entities. Please see Note 22 'Investments in Other Entities' on page 69 for a full list of FCE's entities.

The quantitative Pillar 3 disclosures in the Annual Report are shown only on a consolidated group basis as this is not considered materially different from that reported under solo consolidation.

Certain elements of the CRR are still in a transitional phase and institutions are not required to meet the full requirements until 2019. Despite this, FCE is managing some of these to the final rules and where this is the case it will state that the values shown reflect the 'end point' or 'fully loaded' position.

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Pillar 3 Disclosures

1 RECONCILIATION TO STATEMENT OF FINANCIAL POSITION - ASSETS

GROUP / CONSOLIDATED	Own funds elements				
	Statement of financial position	Deductions from CET1	Tier 2 (T2) Items	Credit Risk Mitigation (On Balance Sheet Netting)	Subject to Credit Risk
For the year ended 31 December 2017	£ mil	£ mil	£ mil	£ mil	£ mil
ASSETS					
Cash and cash equivalents	£ 1,544	£	£	£	£ 1,544
Derivative financial instruments	334				334
Other assets	532			-	532
Net loans and advances to customers	16,798		43	(408)	16,433
Property and equipment	294				294
Income taxes receivable	1				1
Deferred tax assets	78	(25)			53
Goodwill and other intangible assets	14	(14)			-
Investment in a joint venture	-				-
Investment in other entities	3				3
TOTAL ASSETS	£ 19,598	£ (39)	£ 43	£ (408)	£ 19,194

The table above provides a reconciliation of the assets in FCE's Statement of Financial Position on page 31, to assets subject to credit risk prior to risk weighting. FCE's primary form of Credit Risk Mitigation (CRM) is the use of on balance sheet netting where loans from parent entities are used to mitigate

the exposures to Ford Motor Company. There are also bank guarantees and cash collateral deposits which are used as CRM with substitution effects to reduce dealer exposures, the impact of which can be seen in Table 6.

2 RECONCILIATION TO STATEMENT OF FINANCIAL POSITION – LIABILITIES AND SHAREHOLDERS' EQUITY

GROUP / CONSOLIDATED	Own funds elements		
	Statement of financial position	Common Equity Tier 1 (CET1) Items	Tier 2 (T2) Items
For the year ended 31 December 2017	£ mil	£ mil	£ mil
LIABILITIES			
Due to banks and other financial institutions	£ 2,077	£	£
Deposits	388		
Due to parent and related undertakings	2,436		
Derivative financial instruments	20		
Debt securities in issue	11,477		
Other liabilities and provisions	347		
Income taxes payable	101		
Deferred tax liabilities	10		
Subordinated loans	334		334
TOTAL LIABILITIES	£ 17,190	£ -	£ 334
EQUITY			
Ordinary shares	£ 614	£ 614	£
Share premium	352	352	
Retained earnings	1,442	1,442	
TOTAL SHAREHOLDERS' EQUITY	£ 2,408	£ 2,408	£ -
TOTAL LIABILITIES AND SHAREHOLDERS'	£ 19,598	£ 2,408	£ 334

Pillar 3 Disclosures

3a) ENCUMBERED AND UNENCUMBERED ASSETS

Template A	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
CONSOLIDATED	Column 010	Column 040	Column 060	Column 090
For the year ended 31 December 2017	£ mil	£ mil	£ mil	£ mil
010 Assets of the reporting institution	£ 6,822	Not required	£ 12,282	Not required
030 Equity instruments	-	-	3	-
120 Other assets	6,822	-	12,279	-

3b) ASSET ENCUMBRANCE – COLLATERAL RECEIVED

Template B	Fair value of encumbered collateral received or own debt securities issued	Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance
CONSOLIDATED	Column 010	Column 040
For the year ended 31 December 2017	£ mil	£ mil
130 Collateral received by the reporting institution	£ -	£ -
240 Own debt securities issued other than own covered bonds or asset-backed securities	£ -	£ -
241 Own covered bonds and asset-backed securities issued and not yet pledged	£ -	£ -
250 TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT	£ 6,822	£ Not Required

3c) ASSET ENCUMBRANCE – SOURCES OF ENCUMBRANCE

Template C	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
CONSOLIDATED	Column 010	Column 030
For the year ended 31 December 2017	£ mil	£ mil
010 Carrying amount of selected financial liabilities	£ 4,046	£ 6,822

4 ASSET ENCUMBRANCE – NARRATIVE INFORMATION

Template D

CONSOLIDATED

As at 31 December 2017

Asset encumbrance arises from securitisation programmes that generally include the transfer of loans and advances through a variety of programmes and structured entities. Such receivables have typically been sold for legal purposes to consolidated structured entities. Securitisation continues to represent an important portion of FCE's funding structure although it is declining as a percentage of the overall total funding. FCE monitors the mix of its secured and unsecured funding sources within its funding plan seeking the benefits of diverse funding sources. As FCE is not fully isolated from the risks and benefits of securitisation transactions, it continues to recognise the carrying value of the transferred assets.

The tables above have been prepared according to the EBA's technical standards on asset encumbrance disclosure using their published templates, adapted to only show the rows

relevant to FCE's business model. The amounts shown are the median of the values reported as at each quarter end during the year.

Pillar 3 Disclosures

5 CAPITAL REQUIREMENT SPLIT BY RISK TYPE

As at 31 December		2017		2016	
CONSOLIDATED		Risk exposure amount £ mil	Capital requirement £ mil	Risk exposure amount £ mil	Capital requirement £ mil
Risk type	Approach				
Credit risk (excl. Counterparty credit risk)	Standardised	£ 14,818	£ 1,185	£ 13,163	£ 1,053
Counterparty credit risk	Mark to Market	253	20	280	22
Total credit risk		£ 15,071	£ 1,205	£ 13,443	£ 1,075
Credit valuation adjustment (CVA) risk	Standardised	181	15	233	19
Market risk (Foreign exchange risk)	Standardised	95	8	327	26
Operational risk	Standardised	801	64	757	61
Total all risk types		£ 16,148	£ 1,292	£ 14,760	£ 1,181

The table above uses the following terms.

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

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

For the remaining risk types, the capital requirement value is calculated directly by the method prescribed in the CRR. FCE's Individual Capital Guidance (ICG) was 11.8% (2016: 11.6%).

Pillar 3 Disclosures

6 CREDIT RISK – TOTAL EXPOSURE VALUE AND AVERAGE EXPOSURE VALUE BEFORE AND AFTER CREDIT RISK MITIGATION (CRM)

CONSOLIDATED As at 31 December 2017	Exposure value pre-CRM (with substitution effects)		Exposure value post-CRM and credit conversion factors		Capital requirements			
					Year end	Average		
	Year end £ mil	Average £ mil	Year end £ mil	Average £ mil	RWE £ mil	Capital required £ mil	RWE £ mil	Capital required £ mil
Exposure class								
On balance sheet exposures								
Corporates	£ 7,791	£ 7,625	£ 7,789	£ 7,623	£ 7,775	£ 622	£ 7,609	£ 610
Retail	9,232	8,804	9,232	8,804	6,612	529	6,308	505
of which: SME	1,751	1,651	1,751	1,651	1,000	80	943	75
Public sector entities	2	1	2	1	2	-	1	-
Central governments or central banks	1,184	1,174	1,184	1,174	-	-	-	-
Institutions	463	497	465	499	100	8	113	9
Exposures in default	109	95	109	95	163	13	142	11
Other items	5	5	5	5	4	-	5	-
Items below threshold for capital deduction								
Central governments or central banks (DTA)	53	52	53	52	132	11	131	10
Institutions: (Investments)	-	29	-	29	-	-	73	6
Total on balance sheet	£ 18,839	£ 18,282	£ 18,839	£ 18,282	£ 14,788	£ 1,183	£ 14,382	£ 1,151
Off balance sheet exposures								
Corporates	£ 1,643	1,682	30	24	30	2	24	2
Retail	772	787	-	-	-	-	-	-
Total off balance sheet	£ 2,415	£ 2,469	£ 30	£ 24	£ 30	£ 2	£ 24	£ 2
Total credit risk (excl. counterparty credit risk)	£ 21,254	£ 20,751	£ 18,869	£ 18,306	£ 14,818	£ 1,185	£ 14,406	£ 1,153
Derivatives								
Corporates	£ 3	3	3	3	3	-	3	-
Institutions	561	551	561	551	250	20	250	20
Total counterparty credit risk	£ 564	£ 554	£ 564	£ 554	£ 253	£ 20	£ 253	£ 20
Total credit risk	£ 21,818	£ 21,305	£ 19,433	£ 18,860	£ 15,071	£ 1,205	£ 14,659	£ 1,173

CONSOLIDATED As at 31 December 2016	Exposure value pre-CRM (with substitution effects)		Exposure value post-CRM and credit conversion factors		Capital requirements			
					Year end	Average		
	Year end £ mil	Average £ mil	Year end £ mil	Average £ mil	RWE £ mil	Capital required £ mil	RWE £ mil	Capital required £ mil
Exposure class								
On balance sheet exposures								
Corporates	£ 6,981	£ 6,545	£ 6,978	£ 6,542	£ 6,965	£ 558	£ 6,508	£ 522
Retail	7,890	7,899	7,890	7,899	5,653	452	5,688	455
of which: SME	1,482	1,325	1,482	1,325	847	68	757	61
Public sector entities	60	49	60	49	13	1	10	1
Central governments or central banks	1,300	1,123	1,300	1,123	-	-	-	-
Institutions	460	527	463	529	100	8	123	10
Exposures in default	83	79	83	79	124	10	118	9
Other items	5	5	5	5	5	-	5	-
Items below threshold for capital deduction								
Central governments or central banks (DTA)	56	41	56	41	140	11	103	8
Institutions: (Investments)	55	52	55	52	138	11	130	10
Total on balance sheet	£ 16,890	£ 16,320	£ 16,890	£ 16,319	£ 13,138	£ 1,051	£ 12,685	£ 1,015
Off balance sheet exposures								
Corporates	£ 1,704	1,436	25	27	25	2	27	2
Retail	666	641	-	-	-	-	-	-
Total off balance sheet	£ 2,370	£ 2,077	£ 25	£ 27	£ 25	£ 2	£ 27	£ 2
Total credit risk (excl. counterparty credit risk)	£ 19,260	£ 18,397	£ 16,915	£ 16,346	£ 13,163	£ 1,053	£ 12,712	£ 1,017
Derivatives								
Corporates	£ 11	15	11	15	11	1	15	1
Institutions	582	585	582	585	269	21	277	22
Total counterparty credit risk	£ 593	£ 600	£ 593	£ 600	£ 280	£ 22	£ 292	£ 23
Total credit risk	£ 19,853	£ 18,997	£ 17,508	£ 16,946	£ 13,443	£ 1,075	£ 13,004	£ 1,040

Pillar 3 Disclosures

6 CREDIT RISK – TOTAL EXPOSURE VALUE AND AVERAGE EXPOSURE VALUE BEFORE AND AFTER CREDIT RISK MITIGATION (CRM) Continued

The tables on this page and the preceding page use the following terms.

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

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

'Institutions' relates to exposures of varying residual maturities.

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

'Averages' are the median of the values reported as at each quarter end during the year being reported.

'RWE' is the risk weighted exposure value which is calculated by multiplying the exposure value by the appropriate risk weight %.

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

7 CREDIT RISK – EXPOSURE VALUE AFTER CRM ANALYSED BY CREDIT QUALITY STEP

CONSOLIDATED

Exposure value - Post CRM (with substitution effects) & after credit conversion factors

As at 31 December	2017					2016				
	Public Sector Entities £ mil	Institutions £ mil	All other Exposure Classes £ mil	Total £ mil		Public Sector Entities £ mil	Institutions £ mil	All other Exposure Classes £ mil	Total £ mil	
On balance sheet exposures										
Credit Quality Step (CQS) 1	£ -	£ 174	£ -	£ 174		£ 59	£ 160	£ -	£ 219	
Credit Quality Step (CQS) 2	-	210	-	210		-	205	-	205	
Credit Quality Step (CQS) 3	2	81	-	83		1	94	-	95	
Credit Quality Step (CQS) 4	-	-	-	-		-	-	-	-	
Credit Quality Step (CQS) 5	-	-	-	-		-	4	-	4	
Uniform regulatory treatment	-	-	18,372	18,372		-	-	16,367	16,367	
Total on balance sheet	£ 2	£ 465	£ 18,372	£ 18,839		£ 60	£ 463	£ 16,367	£ 16,890	
Off balance sheet exposures										
Uniform regulatory treatment	£ -	£ -	£ 30	£ 30		£ -	£ -	£ 25	£ 25	
Total off balance sheet	£ -	£ -	£ 30	£ 30		£ -	£ -	£ 25	£ 25	
Total credit risk (excl. counterparty credit risk)	£ 2	£ 465	£ 18,402	£ 18,869		£ 60	£ 463	£ 16,392	£ 16,915	
Derivatives										
Credit Quality Step (CQS) 1	£ -	£ -	£ -	£ -		£ -	£ 5	£ -	£ 5	
Credit Quality Step (CQS) 2	-	399	-	399		-	385	-	385	
Credit Quality Step (CQS) 3	-	99	-	99		-	152	-	152	
Uniform regulatory treatment	-	63	3	66		-	40	11	51	
Total counterparty credit risk	£ -	£ 561	£ 3	£ 564		£ -	£ 582	£ 11	£ 593	
Total credit risk	£ 2	£ 1,026	£ 18,405	£ 19,433		£ 60	£ 1,045	£ 16,403	£ 17,508	

Under the Standardised approach, defined exposure classes are risk weighted by first defining the relevant Credit Quality Step (CQS) of the counterparty. Where the counterparty is known to be rated by an External Credit Assessment Institution (ECAI), FCE uses the rating of Standard & Poors (S&P) to determine which CQS to apply and then calculates the subsequent risk weighting.

The risk weightings for all other exposure classes are calculated without the need to apply the credit quality step. These are shown in the rows labelled 'Uniform regulatory treatment' in the tables.

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8 CREDIT RISK – EXPOSURE VALUE AND RISK WEIGHTED EXPOSURE VALUE BY INDUSTRY TYPE

CONSOLIDATED	Exposure value (after CRM & after credit conversion factors)									Total £ mil
	Ford dealers £ mil	Other corporates (incl. FMC owned) £ mil	SMEs £ mil	Private customers £ mil	Credit institutions £ mil	Central governments or central banks £ mil	Other £ mil			
As at 31 December 2017										
Exposure class										
Corporate	£ 5,925	£ 1,897	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ 7,822
Retail	-	-	1,751	7,481	-	-	-	-	-	9,232
Public sector entities	-	-	-	-	-	-	-	2	-	2
Central governments or central banks	-	-	-	-	-	-	1,237	-	-	1,237
Institutions	-	-	-	-	1,026	-	-	-	-	1,026
Exposures in default	64	-	2	43	-	-	-	-	-	109
Other items	-	-	-	-	-	-	-	5	-	5
Total credit risk	£ 5,989	£ 1,897	£ 1,753	£ 7,524	£ 1,026	£ 1,237	£ 7	£ 19,433		
Risk weighted exposure value	£ 6,007	£ 1,897	£ 1,003	£ 5,676	£ 350	£ 132	£ 6	£ 15,071		

CONSOLIDATED	Exposure value (after CRM & after credit conversion factors)									Total £ mil
	Ford dealers £ mil	Other corporates (incl. FMC owned) £ mil	SMEs £ mil	Private customers £ mil	Credit institutions £ mil	Central governments or central banks £ mil	Other £ mil			
As at 31 December 2016										
Exposure class										
Corporate	£ 5,287	£ 1,727	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ 7,014
Retail	-	-	1,482	6,408	-	-	-	-	-	7,890
Public sector entities	-	-	-	-	-	-	-	60	-	60
Central governments or central banks	-	-	-	-	-	-	1,356	-	-	1,356
Institutions	-	-	-	-	1,100	-	-	-	-	1,100
Exposures in default	46	-	2	35	-	-	-	-	-	83
Other items	-	-	-	-	-	-	-	5	-	5
Total credit risk	£ 5,333	£ 1,727	£ 1,484	£ 6,443	£ 1,100	£ 1,356	£ 65	£ 17,508		
Risk weighted exposure value	£ 5,342	£ 1,727	£ 850	£ 4,859	£ 507	£ 140	£ 18	£ 13,443		

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9 CREDIT RISK – EXPOSURE VALUE AND RISK WEIGHTED EXPOSURE VALUE BY GEOGRAPHICAL AREA

CONSOLIDATED As at 31 December 2017	Exposure value (after CRM & after credit conversion factors)							Total FCE £ mil
	UK £ mil	Germany £ mil	Italy £ mil	Spain £ mil	France £ mil	Other £ mil		
Corporate	£ 1,699	£ 2,537	£ 688	£ 387	£ 929	£ 1,582	£ 7,822	
Retail	3,473	2,769	1,386	602	244	758	9,232	
Public sector entities	-	-	2	-	-	-	2	
Central governments or central banks	519	590	53	39	1	35	1,237	
Institutions	712	19	19	17	37	222	1,026	
Exposures in default	14	16	27	5	18	29	109	
Other items	2	2	-	-	1	-	5	
Total credit risk	£ 6,419	£ 5,933	£ 2,175	£ 1,050	£ 1,230	£ 2,626	£ 19,433	
Risk weighted exposure value	£ 4,683	£ 4,501	£ 1,725	£ 843	£ 1,137	£ 2,182	£ 15,071	

CONSOLIDATED As at 31 December 2016	Exposure value (after CRM & after credit conversion factors)							Total FCE £ mil
	UK £ mil	Germany £ mil	Italy £ mil	Spain £ mil	France £ mil	Other £ mil		
Corporate	£ 1,654	£ 2,011	£ 1,100	£ 269	£ 650	£ 1,330	£ 7,014	
Retail	3,158	2,843	487	495	243	664	7,890	
Public sector entities	-	-	1	-	59	-	60	
Central governments or central banks	726	532	40	35	11	12	1,356	
Institutions	700	10	12	12	69	297	1,100	
Exposures in default	15	14	19	5	12	18	83	
Other items	3	1	-	-	-	1	5	
Total credit risk	£ 6,256	£ 5,411	£ 1,659	£ 816	£ 1,044	£ 2,322	£ 17,508	
Risk weighted exposure value	£ 4,433	£ 4,042	£ 1,464	£ 639	£ 867	£ 1,998	£ 13,443	

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10 CREDIT RISK – ASSETS BY RESIDUAL MATURITY

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

CONSOLIDATED			0-3	4-12	1-5	5+	Total
As at 31 December 2017			Months	Months	Years	Years	£ mil
Assets	Note	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
Cash and cash equivalents (institutions, central banks)	A	£ 1,544	£ -	£ -	£ -	£ -	1,544
Derivative financial instruments (institutions, corporates)	C	69	59	178	4		310
- Retail/Lease (retail)	B	£ 806	£ 2,831	£ 7,271	£ 16	£ -	10,924
- Wholesale (corporates)	B	759	5,895	35	-		6,689
Loans and advances to customers	B	£ 1,565	£ 8,726	£ 7,306	£ 16	£ -	17,613
Operating leases (corporates)	B	152	137	-	-		289
Other assets (corporates, central governments, other items)	D	280	(4)	4	95		375
Total asset inflows		£ 3,610	£ 8,918	£ 7,488	£ 115	£ -	20,131

CONSOLIDATED			0-3	4-12	1-5	5+	Total
As at 31 December 2016			Months	Months	Years	Years	£ mil
Assets	Note	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
Cash and cash equivalents (institutions, central banks)	A	£ 1,654	£ -	£ -	£ -	£ -	1,654
Derivative financial instruments (institutions, corporates)	C	20	35	248	8		311
- Retail/Lease (retail)	B	£ 732	£ 2,441	£ 6,258	£ 14	£ -	9,445
- Wholesale (corporates)	B	755	5,311	45	-		6,111
Loans and advances to customers	B	£ 1,487	£ 7,752	£ 6,303	£ 14	£ -	15,556
Operating leases (corporates)	B	112	134	-	-		246
Other assets (corporates, central governments, other items)	D	168	-	-	88		256
Total asset inflows		£ 3,441	£ 7,921	£ 6,551	£ 110	£ -	18,023

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 10 – 'Cash and cash equivalents' in the Financial Statements): • 'Cash and cash equivalents' classified by contractual maturity date.
B	Customer payments are assumed to occur on the latest contractual date and no behavioural adjustments are made for customer early settlements: • Retail finance and lease contracts and operating lease vehicles (reported within Note 17 'Property and equipment') generally require customers to pay equal monthly instalments over the life of the contract. • Wholesale financing for new and used vehicles held in dealers inventory - A bullet repayment schedule is utilised as the principal is typically repaid in one lump sum at the end of the financing period.
C	Forward foreign exchange contracts, cross currency interest rate swaps and interest rate swaps are presented as settled on a net basis.
D	Classified according to the remaining period to maturity, including 'Restricted Cash' which are assumed to be amounts typically not available for use in day to day operations classified based on the latest possible repayment date.

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11 COUNTERPARTY CREDIT RISK - EXPOSURE VALUE AND NOTIONAL AMOUNT

As at 31 December CONSOLIDATED	2017				2016			
	M2M	Potential	Total	Notional	M2M	Potential	Total	Notional
	£ mil	future exposure £ mil	exposure at default £ mil	amount £ mil	£ mil	future exposure £ mil	exposure at default £ mil	amount £ mil
Interest rate contracts	£ 119	£ 160	£ 279	£ 20,907	£ 173	£ 158	£ 331	£ 18,759
Foreign exchange contracts	215	49	264	1,655	180	72	252	1,830
Total contracts	£ 334	£ 209	£ 543	£ 22,562	£ 353	£ 230	£ 583	£ 20,589

Memo:	2017	2016
Collateral held	£ (6)	£ (12)
Initial margin posted	£ 21	£ 10

FCE's exposure to counterparty credit risk is through interest rate and foreign exchange derivatives. The exposure values in the table above are calculated in line with the CRR mark-to-market method.

FCE does not have any exposure to either Wrong way risk, (as defined in the CRR), or to credit derivative transactions.

In the event of a deterioration of FCE's credit rating there would be no impact to collateral requirements of existing contracts.

Please refer to Note 37 'Market Risk' for further details of FCE's Derivatives policies and controls, and to Note 35 'Credit Risk' for details on the margining of derivative contracts.

The table above uses the following terms.

'Initial margin posted' is the value of Initial Margin cash collateral FCE has posted to a Qualifying Central Counterparty (CCP) in respect of clearing arrangements.

'Collateral held' is the total net value of variation margin cash collateral received by FCE from the margining of derivative contracts.

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12 CREDIT RISK ADJUSTMENTS – RECONCILIATION OF MOVEMENTS

As at 31 December CONSOLIDATED	2017			2016		
	Specific impairment allowance £ mil	Collective impairment allowance £ mil	Total £ mil	Specific impairment allowance £ mil	Collective impairment allowance £ mil	Total £ mil
Reconciliation of movements						
Opening balance	£ 1	£ 41	£ 42	£ -	£ 32	£ 32
Write Offs	(41)	-	(41)	(32)	-	(32)
Recoveries	21	-	21	16	-	16
Provisions for credit losses	20	1	21	16	6	22
FX movement	-	1	1	1	3	4
Closing balance	£ 1	£ 43	£ 44	£ 1	£ 41	£ 42
Income statement						
Charges - (Increase) / decrease	£ (41)	£ (1)	£ (42)	£ (32)	£ (6)	£ (38)
Recoveries	21	-	21	16	-	16
Total charged to income statement	£ (20)	£ (1)	£ (21)	£ (16)	£ (6)	£ (22)

The credit risk adjustments used in FCE's own funds calculations equates to the value of FCE's specific and collective impairment allowances.

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13 CREDIT RISK ADJUSTMENTS – PAST DUE EXPOSURES AND IMPAIRMENT BY COUNTERPARTY TYPE AND GEOGRAPHICAL AREA

CONSOLIDATED As at 31 December 2017	Counterparty type		Geographical area							Total £ mil
	Non-financial corporations £ mil	Households £ mil	UK £ mil	Germany £ mil	Italy £ mil	Spain £ mil	France £ mil	Other £ mil		
Past Due but not impaired										
30 days or less	£ 34	£ 110	£ 19	£ 30	£ 23	£ 8	£ 4	£ 60	£ 144	
31 - 180 days	10	42	15	11	9	5	2	10	52	
Total Past Due	£ 44	£ 152	£ 34	£ 41	£ 32	£ 13	£ 6	£ 70	£ 196	
Impairment										
Impaired assets	£ 62	£ 5	£ -	£ 4	£ 19	£ 1	£ 17	£ 26	£ 67	
Specific impairment allowances	£ 1	-	£ -	£ 1	£ -	£ -	£ -	£ -	£ 1	
Additions / (reductions) to specific impairment allowances	-	40							40	
Collective impairment allowances	£ 5	38	£ 6	£ 8	£ 18	£ 7	£ 1	£ 3	£ 43	
Additions / (reductions) to collective impairment allowances	-	3							3	

CONSOLIDATED As at 31 December 2016	Counterparty type		Geographical area							Total £ mil
	Non-financial corporations £ mil	Households £ mil	UK £ mil	Germany £ mil	Italy £ mil	Spain £ mil	France £ mil	Other £ mil		
Past Due but not impaired										
30 days or less	£ 22	£ 95	£ 19	£ 29	£ 20	£ 5	£ 3	£ 41	£ 117	
31 - 180 days	8	40	16	12	8	4	1	7	48	
Total Past Due	£ 30	£ 135	£ 35	£ 41	£ 28	£ 9	£ 4	£ 48	£ 165	
Impairment										
Impaired assets	£ 45	£ 5	£ 2	£ 4	£ 13	£ 3	£ 12	£ 16	£ 50	
Specific impairment allowances	£ 1	-	£ 1	£ -	£ -	£ -	£ -	£ -	£ 1	
Additions / (reductions) to specific impairment allowances	2	32							34	
Collective impairment allowances	£ 5	36	£ 7	£ 7	£ 15	£ 7	£ 1	£ 4	£ 41	
Additions / (reductions) to collective impairment allowances	3	6							9	

The tables show amounts by counterparty type and geographical area based on the location of the reporting entity.

'Counterparty type' relates to the counterparty sector classifications used in the Financial Reporting (FINREP) regime under CRDIV, and is based on the nature of the immediate counterparty.

'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.

FCE's impairment policy is detailed in 'Accounting Policies' on page 39.

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14 CALCULATION OF OWN FUNDS

The table below uses the standard template issued by the EBA to show the composition of FCE's own funds but only displays

the rows of the EBA template that are applicable to FCE's business model.

CONSOLIDATED

For the year ended 31 December

	2017 £ mil	2016 £ mil
Common Equity Tier 1 (CET1) capital: instruments and reserves		
1 Capital instruments and the related share premium accounts	£ 966	£ 966
of which: share capital and share premium	966	966
2 Retained earnings	1,131	948
3 Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	311	268
6 Common Equity Tier 1 (CET1) capital before regulatory adjustments	£ 2,408	£ 2,182
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7 Additional value adjustments (-)	£ -	£ (1)
8 Intangible assets (net of related tax liability) (-)	(14)	(11)
10 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3))	(25)	(25)
28 Total regulatory adjustments applied to Common Equity Tier 1 (CET1)	£ (39)	£ (37)
29 Common Equity Tier 1 (CET1) capital	£ 2,369	£ 2,145
45 Tier 1 capital (T1= CET1 + Additional Tier 1 (AT1) capital)	£ 2,369	£ 2,145
Tier 2 (T2) capital: instruments and provisions		
46 Capital instruments and the related share premium accounts	£ 334	£ 308
50 Credit risk adjustments	43	40
58 Tier 2 (T2) capital	£ 377	£ 348
59 Total capital (TC = T1 + T2)	£ 2,746	£ 2,493
60 Total risk weighted assets	£ 16,148	£ 14,760
Capital ratio and buffers		
61 Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.67%	14.53%
62 Tier 1 (as a percentage of total risk exposure amount)	14.67%	14.53%
63 Total capital (as a percentage of total risk exposure amount)	17.00%	16.89%
64 Institution specific buffer requirement (as a percentage of total risk exposure amount)	1.26%	0.63%
65 of which: capital conservation buffer requirement	1.25%	0.63%
66 of which: countercyclical buffer requirement	0.01%	0.00%
68 Common Equity Tier 1 available to meet buffers (as a percentage of total risk exposure amount)	8.02%	8.00%
Amounts below the thresholds for deductions		
73 Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	£ -	£ 55
75 Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	53	56
Applicable caps on the inclusion of provisions in Tier 2		
76 Credit risk adjustments included in T2 in respect of exposures subject to standardised approach	£ 43	£ 40
77 Cap on inclusion of credit risk adjustments in T2 under standardised approach	188	168

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15 CAPITAL INSTRUMENTS' MAIN FEATURES

As at 31 December 2017

Main features	Capital Instruments: Main features						
	Tier 1	Tier 2					
Issuer	FCE Bank Plc	FCE Bank Plc	FCE Bank Plc	FCE Bank Plc	FCE Bank Plc	FCE Bank Plc	FCE Bank Plc
Unique Identifier (eg. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Governing law(s) of the instrument	England and Wales	England and Wales	England and Wales	England and Wales	England and Wales	England and Wales	England and Wales
<i>Regulatory treatment</i>							
Transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
Post-transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
Eligible at solo/(sub-) consolidated / solo & (sub-) consolidated	Sub-Consolidated & Consolidated	Sub-Consolidated & Consolidated	Sub-Consolidated & Consolidated	Sub-Consolidated & Consolidated	Sub-Consolidated & Consolidated	Sub-Consolidated & Consolidated	Sub-Consolidated & Consolidated
Instrument type (types to be specified by each jurisdiction)	Ordinary Shares	Perpetual Subordinated Debt	Perpetual Subordinated Debt	Perpetual Subordinated Debt	Perpetual Subordinated Debt	Perpetual Subordinated Debt	Perpetual Subordinated Debt
Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	£966m (includes £352m share premium)	£41m	£32m	£11m	£165m	£50m	£35m
Nominal amount of instrument	£1 per share	€46m / £41m	€36m / £32m	€13m / £11m	£165m	£50m	€40m / £35m
Issue price	On 11th October 1963 10,000 shares were issued for £10,000. Between 1980 and 2003 further shares were issued at a variety of prices resulting in the current level shown	100%	100%	100%	100%	100%	100%
Redemption price	N/A	100%	100%	100%	100%	100%	100%
Accounting classification	Shareholder's Equity	Liability	Liability	Liability	Liability	Liability	Liability
Original date of issuance	11th October 1963	10th June 1993	1st December 1994	25th June 1996	6th October 2000	30th December 2016	22nd December 2017
Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
Original maturity date	N/A	No maturity	No maturity	No maturity	No maturity	No maturity	No maturity
Issuer call subject to prior supervisory approval	No	No	No	No	No	No	No
Optional call date, contingent call dates and redemption amount	No	No	No	No	No	No	No
Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<i>Coupons / dividends</i>							
Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating	Floating	Floating	Floating
Coupon rate and any related index	N/A	6 m Euribor + 1.75%	6 m Euribor + 1.75%	6 m Euribor + 1.75%	3 m GBP Libor + 2.19%	3 m GBP Libor + 2.09%	3 m Euribor + 1.76%
Existence of a dividend stopper	N/A	No	No	No	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
Existence of step up or other incentive to redeem	No	No	No	No	No	No	No
Noncumulative or cumulative	Noncumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A	N/A	N/A
If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A
If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A	N/A	N/A
If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A	N/A	N/A
If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Write-down features	No	No	No	No	No	N/A	N/A
If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
If write-down, full or partial	N/A	N/A	N/A	N/A	N/A	N/A	N/A
If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated debt	Unsecured debt	Unsecured debt	Unsecured debt	Unsecured debt	Unsecured debt	Unsecured debt
Non-compliant transitioned features	No	No	No	No	No	No	No
If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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16 GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES RELEVANT FOR THE CALCULATION OF THE COUNTERCYCLICAL CAPITAL BUFFER

CONSOLIDATED As at 31 December 2017	Credit Exposures		Own Funds Requirements	
	Exposure value for SA	Own funds requirements	Own funds weights	Countercyclical capital rate
	Column 010 £ 000	Column 070 & 100 £ 000	Column 110	Column 120
010 Breakdown by Country				
Czech Republic	£ 112,454	£ 8,058	0.69	0.500%
Hong Kong	24,053	1,924	0.16	1.250%
Iceland	22	2	0.00	1.250%
Norway	22	2	0.00	2.000%
Slovakia	7,002	560	0.05	0.500%
Sweden	10	1	0.00	2.000%
All other countries	17,025,462	1,156,467	99.10	0.000%
020 Total	£ 17,169,025	£ 1,167,014	100.00	0.006%

CONSOLIDATED As at 31 December 2016	Credit Exposures		Own Funds Requirements	
	Exposure value for SA	Own funds requirements	Own funds weights	Countercyclical capital rate
	Column 010 £ 000	Column 070 & 100 £ 000	Column 110	Column 120
010 Breakdown by Country				
Hong Kong	£ 10,146	£ 812	0.00	0.625%
Norway	22	2	0.00	1.500%
Sweden	5	-	0.00	1.500%
All other countries	14,983,165	1,021,835	100.00	0.000%
020 Total	£ 14,993,338	£ 1,022,649	100.00	0.000%

The tables above use the standard template issued by the EBA to show the distribution of relevant credit exposures for the calculation of an institution's countercyclical capital buffer (CCyB), using only the columns that are applicable to FCE's business model.

The CCyB rates set by Hong Kong, Norway and Sweden were the only positive rates recognised by the Financial Policy Committee (FPC) in the UK as at the end of 2016, with the Czech Republic, Iceland and Slovakia added in 2017. As such these are the only countries disclosed separately in each of the tables.

17 AMOUNT OF INSTITUTION-SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER

CONSOLIDATED As at 31 December	2017 £ mil	2016 £ mil
010 Total risk exposure amount	£ 16,148	£ 14,760
020 Institution specific countercyclical capital buffer rate	0.006%	0.000%
030 Institution specific countercyclical capital buffer requirement	£ 1	£ -

The table above uses the standard template issued by the EBA to show the value and rate of a firm's institution-specific

countercyclical capital buffer requirement and shows FCE's value and rate as at 31 December 2017 and 2016.

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18 RECONCILIATION OF THE LEVERAGE EXPOSURE MEASURE TO STATEMENT OF FINANCIAL POSITION – ASSETS

The leverage tables on pages 124 – 125 show the values as calculated under the leverage ratio delegated regulation, adopted by the European Commission in January 2015.

All tables have been prepared using the standard templates issued by the EBA but only display the rows that are applicable

to FCE's business model.

The table below provides a reconciliation of FCE's assets as shown in the Statement of Financial Position on page 31, to the exposure measure used in the calculation of the leverage ratio.

LRSum CONSOLIDATED As at 31 December	Applicable Amounts	
	2017 £ mil	2016 £ mil
1 Total assets as per published financial statements	£ 19,598	£ 17,626
4 Adjustments for derivative financial instruments	209	236
6 Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	269	262
7 Other adjustments	(34)	(37)
8 Total leverage ratio exposure	£ 20,042	£ 18,087

19 BREAKDOWN OF LEVERAGE EXPOSURE MEASURE AND CALCULATION OF LEVERAGE RATIO

LRCom CONSOLIDATED As at 31 December	CRR leverage ratio exposures	
	2017 £ mil	2016 £ mil
On balance sheet exposures (excluding derivatives & SFTs)		
1 On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	£ 19,269	£ 17,280
2 (Asset amounts deducted in determining Tier 1 capital)	(39)	(37)
3 Total on balance sheet exposures (excluding derivatives & SFTs)	£ 19,230	£ 17,243
Derivative exposures		
4 Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	£ 334	£ 353
5 Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	209	229
11 Total derivative exposures	£ 543	£ 582
Other off-balance sheet exposures		
17 Off-balance sheet exposures at gross notional amount	£ 2,416	£ 2,372
18 (Adjustments for conversion to credit equivalent amounts)	(2,147)	(2,110)
19 Other off-balance sheet exposures	£ 269	£ 262
Capital and total exposures		
20 Tier 1 capital	£ 2,369	£ 2,145
21 Total leverage ratio exposures	20,042	18,087
22 Leverage ratio	11.82%	11.86%

FCE's fully loaded leverage ratio as at 31st December 2017 is 11.82% (2016: 11.86%). The Basel Committee (BCBS) is

currently tracking financial institutions against a minimum requirement of 3%.

Pillar 3 Disclosures

20 BREAKDOWN OF LEVERAGE EXPOSURE MEASURE BY EXPOSURE CLASS

LRSpl CONSOLIDATED As at 31 December		CRR leverage ratio exposures	
		2017 £ mil	2016 £ mil
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	£ 19,269	£ 17,280
EU-2	Trading book exposures	-	-
EU-3	Banking book exposures, of which:	19,269	17,280
EU-5	Exposures treated as sovereigns	1,237	1,356
EU-6	Exposures to regional governments, MDB, international organisations & PSE NOT treated as sovereigns	2	60
EU-7	Institutions	484	526
EU-9	Retail exposures	9,232	7,890
EU-10	Corporate	8,200	7,360
EU-11	Exposure in default	109	83
EU-12	Other exposures (eg. equity, securitisations and other non-credit obligation assets)	5	5

The table above gives a breakdown by exposure class of the on balance sheet element of the leverage exposure measure as shown in Table 19 on page 124.

21 QUALITATIVE DISCLOSURE ON MANAGEMENT OF LEVERAGE RATIO

LRQua CONSOLIDATED As at 31 December 2017		
1	Description of the process used to manage the risk of excessive leverage	Leverage is managed within FCE's Risk Appetite Framework and FCE demonstrates a low risk appetite for excessive leverage at 11.82%.
2	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	The leverage ratio remained flat during the period.

Other Information

Country-by-Country Reporting

The following table is disclosed to capture the requirements of Article 89 relating to country-by-country reporting (CBCR) of the Capital Requirements Directive IV (CRDIV), which was enacted as a result of the Capital Requirements (Country-by-Country) Reporting Regulations 2013 (Statutory Instrument 2013 No. 3118).

The regulation requires disclosure of Public Subsidies received. No such subsidies were received during 2017.

For prior year comparators please see page 163 of FCE's 2016 Annual Reports and Accounts.

Name of Branch or Subsidiary	Principal Activity	Average Number of Full Time Employees	Total Income* (£ mils)	Profit or (loss) before tax** (£ mils)	Corporation tax paid (£ mils)
FCE Bank plc Austria	Bank	23	£ 8	£ 4	£ 0.1
FCE Bank plc Belgium	Bank	26	£ 13	£ 2	£ 0.9
FCE Bank plc France	Bank	91	£ 43	£ 18	£ 4.8
FCE Bank plc Germany	Bank	358	£ 427	£ 45	£ 7.9
FCE Bank plc Greece	Bank	18	£ 1	£ -	£ -
FCE Bank plc Ireland	Bank	3	£ 3	£ 1	£ 0.2
FCE Bank plc Italy	Bank	89	£ 72	£ 22	£ 4.5
FCE Bank plc Netherlands	Bank	22	£ 16	£ 2	£ 0.4
FCE Bank plc Norway	Bank	-	£ -	£ -	£ 0.5
FCE Bank plc Portugal	Bank	10	£ 4	£ -	£ 0.3
FCE Bank plc Spain	Bank	89	£ 35	£ 8	£ 1.5
FCE Bank plc UK	Bank	919	£ 203	£ 195	£ - ***
Ford Financial GmbH		-	£ -	£ (15)	£ 0.0
FCE Credit s.r.o	Finance company	21	£ 4	£ 2	£ 0.4
FCE Credit Hungary Zrt	Finance company	9	£ 3	£ 1	£ 0.1
FCE Services Kft	Finance company		£ -	£ -	£ -
FCE Bank SA Oddzial w Polsce	Bank	32	£ 6	£ 2	£ -
Ford Credit Switzerland GmbH	Finance company	36	£ 15	£ 7	£ 1.2
Saracen Holdco Ab	Holding Company	-	£ -	£ 3	£ 0.0

*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.

**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 is a member of a tax group in the UK and as such losses and other reliefs may be shared between associated companies within the group. Group relief claims by FCE in 2017 are expected to reduce its UK corporation tax liability to nil. Payments for group relief equivalent to UK tax are expected to be made to the loss surrendering company.

Independent Auditors' Report to the Members of FCE Bank plc. – Country by Country

Independent auditors' report to the Directors of FCE Bank Plc

We have audited the accompanying schedule of FCE Bank Plc for the year ended 31 December 2017 ("the schedule"). The schedule has been prepared by the directors based on the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Directors' Responsibility for the schedule

The directors are responsible for the preparation of the schedule in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013, for the appropriateness of the basis of preparation and the interpretation of the Regulations as they affect the preparation of the schedule, and for such internal control as the directors determine is necessary to enable the preparation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the

appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the country-by-country information in the schedule as at 31 December 2017 is prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Basis of Preparation and Restriction on Distribution

Without modifying our opinion, we draw attention to the schedule, which describes the basis of preparation. The schedule is prepared to assist the directors to meet the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. As a result, the schedule may not be suitable for another purpose.

Our report is intended solely for the benefit of the directors of FCE Bank Plc. We do not accept or assume any responsibility or liability to any other party save where terms are agreed between us in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
23 March 2018
London

Glossary of Defined Terms

2017 Annual Report-FCE's consolidated annual financial statements as at and for the year ended 31 December 2017.

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.

Basel III-The 3rd instalment of the Basel Accord.

CET1 Capital-Common Equity Tier 1 capital as defined in the Capital Requirements Regulation. This is the top quality capital tier within Own Funds.

CET1 Capital Ratio-Common Equity Tier 1 capital divided by the end of period risk exposure amount.

Company-Means FCE Bank plc including all its European Branches, but excluding its subsidiaries and SEs.

CRDIV-The 4th iteration of the Capital Requirements Directive formally published in the Official Journal of the EU on 27 June 2013. This is made up of the Capital Requirements Directive, (2013/36/EU), (CRD), which must be implemented through national laws, and the Capital Requirements Regulation (EU/575/2013), (CRR), which is directly applicable to firms across the EU. CRDIV is intended to implement the Basel III agreement in the EU.

CRR-The Capital Requirements Regulation (EU/575/2013) part of CRDIV.

Dealer or Dealership-A wholesaler franchised directly by Ford, to provide vehicle sales, service, repair and financing.

EMTN-1993 European Medium Term Note Programme launched by FCE for the issue of Notes, including retail securities, to both institutional and retail investors. Maximum programme size is EUR 15 billion.

Europe-The 19 markets where FCE provides financial services. These are: Austria, Belgium, Britain, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Netherlands, Norway, Poland, Portugal, Spain, Sweden and Switzerland.

FCA-The Financial Conduct Authority is the statutory body responsible for conduct regulation and supervision of UK authorised firms (from 1 April 2013), also the prudential regulator for financial services firms not prudentially regulated by the PRA..

FCI-Ford Credit International LLC, a company incorporated under the laws of Delaware USA and a direct subsidiary of Ford Credit.

FCSH-FCSH GmbH a limited liability company incorporated under the laws of Switzerland and a direct subsidiary of FCI.

Ford Credit or FMCC-Ford Motor Credit Company LLC, a limited liability company organised under the laws of Delaware USA and an indirect wholly owned subsidiary of Ford.

Ford-Ford Motor Company, a company incorporated under the laws of Delaware USA and the Group's ultimate parent company. In some cases, this term may mean Ford Motor Company and all or some of its affiliates.

Forso or the Forso JV-a joint venture finance company established with CA Consumer Finance, a consumer credit subsidiary of Credit Agricole S.A., in June 2008 which provides customer and dealer automotive financing in the Nordic markets.

Foveruka-A Ford Germany pension plan whose assets include deferred and immediate annuity contracts with Alte Leipziger insurance company. Foveruka covers both hourly automotive and certain automotive and FCE salaried employees (dependent upon grade) recruited after 1 January 1993.

Full Service Leasing or FSL-Fixed monthly vehicle rental for customers, including ongoing maintenance and disposal of vehicle at the end of the hire period. Typically FCE retains responsibility for marketing and sales, for which it receives a fee income, and externalises the finance, leasing, maintenance and repair services for current and future portfolios of commercial operating leases to a preferred third party under the 'Ford Lease' or 'Ford Business Partner' brand.

Fully Loaded-When a measure is presented or described as being on a fully loaded basis it is calculated without applying the transitional provisions set out in Part Ten of the CRR. This can also be referred to as 'end point'.

Gross loans and advances to customers-Total payments remaining to be collected on loans and advances to customers (refer to Note 13 'Loans and advances to customers').

Group or FCE-Means the Company and its subsidiaries and SEs

IAS-International Accounting Standards.

ICAAP-Internal Capital Adequacy Assessment Process. FCE's annual process, as defined in PRA regulation, by which it assesses 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.

IFRIC-International Financial Reporting Interpretations Committee.

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, manages and monitors liquidity and funding risks under stress scenarios and across different time horizons, consistent with its risk appetite.

Glossary of Defined Terms

Net loans and advances to customers-Loans and advances to customers as reported in the balance sheet representing 'Gross loans and advances to customers' including any deferred costs/fees and less provisions and unearned finance income and unearned interest supplements from related parties.

Operating lease-Contracts where the assets are not wholly amortised during the primary period and where the lessor may not rely on rentals for his profit but may look for recovery of the balance of his costs and of his profits from the sale of the recovered asset at the lease end. Contract hire is a variation of operating lease.

Own Funds-The own funds of an institution is the sum of its Tier 1 and Tier 2 capital.

Pillar 1-The part of the Basel framework which sets the minimum capital requirements for institutions to hold.

Pillar 2-Supervisory Review Process where regulators evaluate the activities and risk profiles of individual institutions to determine whether they should hold higher levels of capital than the minimum capital requirements of Pillar 1.

Pillar 3-The pillar of the Basel framework which focuses on the public disclosures of institutions with the aim of enhancing transparency for all stakeholders.

PRA-The Prudential Regulation Authority is the statutory body responsible for the prudential regulation of banks, building societies, credit unions, insurers and major investment firms in the UK (from 1 April 2013). The PRA is a subsidiary of the Bank of England.

Public / Private securitisation-Public transactions relate to the asset-backed securities which are publicly traded and private transactions relate to sales directly to an individual, or small number of, investor(s).

Retail-The part of FCE's business that offers vehicle financing and leasing products and services to individual consumers, sole traders and businesses introduced through a Dealer or Dealership that has an established relationship with FCE.

Risk Based Equity or RBE-The basis on which FCE measures the performance of its locations. RBE interest expense is adjusted from that reported under IFRS in order to allocate location equity costs that are based on the locations contribution to FCE total risk and enables the risk/return of individual locations to be evaluated from a total perspective. RBE profit before taxes includes an RBE interest expense adjustment and excludes gains and losses related to derivative fair value and foreign exchange adjustments. The impact to earnings of derivative fair value

and foreign exchange adjustments is primarily related to movements in interest rates and is excluded from the performance measurement as FCE's risk management activities are administered on a centralised basis.

Risk Exposure Amount-For credit risk, (including counterparty credit risk), the risk exposure amount is the risk weighted exposure value. For Credit Valuation Adjustment, (CVA risk), market risk and operational risk, the Pillar 1 capital requirement is calculated initially according to the rules contained in the CRR and the risk exposure amount derived from that (by applying a factor of 12.5).

Risk Weighted Exposures (RWE) / Risk Weighted Assets (RWA)-For credit risk, (including counterparty credit risk), the risk weighted exposure amount is the value of the exposures multiplied by the appropriate percentage risk weighting of the relevant exposure class as defined in the CRR. These can also be referred to as Risk Weighted Assets (RWA).

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 and collective impairment losses.

Total Capital Ratio-FCE's Own Funds divided by the end of period risk exposure amount.

Wholesale-The part of FCE's business that offers financing of a wholesaler's inventory stock of new and used vehicles, parts and accessories. May also be known as dealer floor-plan or stocking finance. May also include other forms of financing provided to a wholesaler by FCE such as capital or property loans, improvements in dealership facilities and working capital overdrafts.

Additional data and web resources, including those listed below, can be obtained from the following web addresses:

Additional data	Website addresses
<p>FCE Bank plc.</p> <ul style="list-style-type: none"> • 'Annual Report' • 'Pillar 3 Disclosures (Remuneration)' • 'Pillar 3 Disclosures (excl. Remuneration)' Footnote 1 • 'Management Statement' 	<p>http://www.fcebank.com/investor-center</p>
<p>Ford Motor Company (Ultimate Parent Company) including:</p> <ul style="list-style-type: none"> • 'Quarterly Reports' • 'Annual Reports' • 'SEC Filings' Footnotes 2 and 3 	<p>http://corporate.ford.com/investors.html</p> <p>To access from the above link click on 'Reports and Filings' within the 'Investors' menu.</p>
<p>Ford Motor Credit Company including:</p> <ul style="list-style-type: none"> • 'Company Reports' Footnote 3 • 'Company Events' • 'Asset-Backed Securitization' Footnote 4 	<p>http://credit.ford.com/investor-center</p>
<p>Luxembourg's Stock Exchange which includes</p> <ul style="list-style-type: none"> • Euro Medium Term Note Base Prospectus (refer to Note 26 'Debt securities in issue'). 	<p>https://www.bourse.lu</p> <p>To access search for 'FCE'</p>
<p>Financial Reporting Council</p> <ul style="list-style-type: none"> • The UK Corporate Governance Code 	<p>https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance.aspx</p>

Additional information
<p>Footnote 1: From 2015, FCE's Pillar 3 disclosures (excluding Remuneration) are included in the Annual Report but for prior years a separate document was produced</p>
<p>Footnote 2: Securities and Exchange Commission (SEC)</p>
<p>Footnote 3: SEC filings include both SEC Form 10-K Annual Report and SEC Form 10-Q Quarterly Reports.</p>
<p>Footnote 4: 'Asset-Backed Securitization' incorporates European retail public securitisation data including the following report types:</p> <ul style="list-style-type: none"> • Prospectuses • Monthly Investor Reports