PART II

ITEM 5. ***Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.***

At December 31, 2024, all of our Shares were owned by Ford Holdings LLC, a wholly owned subsidiary of Ford. We did not issue or sell any equity interests during 2024, and there is no market for our Shares. No cash distributions were paid to our parent in 2023. We paid cash distributions to our parent of $500 million in 2024.

ITEM 6. ***[Reserved.]***

ITEM 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations.***

Overview

Our primary focus is to accelerate profitable growth for Ford by making Ford and Lincoln vehicles and services accessible to customers. We work with Ford to maximize customer and dealer satisfaction and loyalty, offering a wide variety of financing products and outstanding service. We strive to continually improve processes focusing on the customer and the dealer to manage costs and ensure the efficient use of capital. As a result, Ford Credit is uniquely positioned to drive incremental sales, improve customer satisfaction and owner loyalty to Ford, and direct profits and distributions back to Ford to support its overall business, including vehicle development.

We leverage three fundamental strategies in the management of our operations:

- To employ prudent origination practices while maintaining a managed level of risk;
- To have efficient and effective servicing and collection practices; and
- To fund the business efficiently while managing our balance sheet risk.

Generation of Revenue, Income, and Cash

The principal factors that influence our earnings are the amount and mix of finance receivables, operating leases, and financing margins. The performance of these receivables and operating leases over time, mainly through the impact of credit losses and variations in the residual value of leased vehicles, also affects our earnings.

The amount of our finance receivables and operating leases depends on many factors, including:

- The volume of new and used vehicle sales and leases;
- The extent to which we purchase retail financing and operating lease contracts and the extent to which we provide wholesale financing;
- The sales price of the vehicles financed;
- The level of dealer inventories;
- Ford-sponsored special financing programs available exclusively through us; and
- The availability of cost-effective funding.

For finance receivables, financing margin equals the difference between revenue earned on finance receivables and the cost of borrowed funds. For operating leases, financing margin equals revenue earned on operating leases, less depreciation expense and the cost of borrowed funds. Interest rates earned on most receivables and rental charges on operating leases generally are fixed at the time the contracts are originated. On some receivables, primarily dealer wholesale financing, we charge interest at a floating rate that varies with changes in short-term interest rates.

Business Performance

We review our business performance by segment (United States and Canada, Europe, and All Other). We measure the performance of our segments primarily on an income before income taxes basis, after excluding market valuation adjustments to derivatives and exchange-rate fluctuations on foreign currency-denominated transactions, which are reflected in Unallocated Other. These adjustments are excluded when assessing our segment performance because they are carried out at the corporate level. For additional information regarding our segments, see Note 14 of our Notes to the Financial Statements.

Pricing Pressure

Despite vehicle pricing remaining elevated over the last year due to strong demand, supply shortages, and inflationary costs, we have already observed some declines in new and used vehicle prices as auto production recovers from the semiconductor shortage, but it is unclear whether prices will decline fully to pre-COVID-19 pandemic levels. Intense competition and excess capacity are likely to put downward pressure on inflation-adjusted prices, including increased marketing incentives, for similarly-contented vehicles and contribute to a challenging pricing environment for the automotive industry in most major markets. Marketing incentives on new vehicles can result in higher or lower financing share and could affect the value of returned lease vehicles.

Inflation and Interest Rates

We continue to see lingering impacts on our business due to inflation, including ongoing geopolitical volatility, driving up energy prices, freight premiums, and other operating costs above normal rates. Although headline inflation in the United States and Europe appears to have peaked, core inflation (excluding food and energy prices) remains elevated and is a source of continued cost pressure on businesses and households. Interest rates have increased significantly and are only now beginning to reverse, as central banks in developed countries attempted to subdue inflation while government deficits and debt remain at high levels in many global markets. Accordingly, the eventual implications of higher government deficits and debt, tighter monetary policy, and potentially higher long-term interest rates may drive a higher cost of capital for the business. At Ford Credit, rising interest rates may impact our ability to source funding and offer financing at competitive rates, which could reduce our financing margin.

Definitions and Information Regarding Causal Factors

In general, we measure period-over-period changes in earnings before taxes ("EBT") using the causal factors listed below:

- *Volume and Mix* – Volume and Mix are primarily reflected within *Net financing margin* on the consolidated income statements.
  - Volume primarily measures changes in net financing margin driven by changes in average net receivables excluding the allowance for credit losses at prior period financing margin yield (defined below in financing margin) at prior period exchange rates. Volume changes are primarily driven by the volume of new and used vehicles sold and leased, the extent to which we purchase retail financing and operating lease contracts, the extent to which we provide wholesale financing, the sales price of the vehicles financed, the level of dealer inventories, Ford-sponsored special financing programs available exclusively through us, and the availability of cost-effective funding.
  - Mix primarily measures changes in net financing margin driven by period-over-period changes in the composition of our average net receivables excluding the allowance for credit losses by product within each region.

- *Financing Margin* – Financing Margin is reflected within *Net financing margin* on the consolidated income statements.
  - Financing margin variance is the period-over-period change in financing margin yield multiplied by the present period average net receivables excluding the allowance for credit losses at prior period exchange rates. This calculation is performed at the product and country level and then aggregated. Financing margin yield equals revenue, less interest expense and scheduled depreciation for the period, divided by average net receivables excluding the allowance for credit losses for the same period.
  - Financing margin changes are driven by changes in revenue and interest expense. Changes in revenue are primarily driven by the level of market interest rates, cost assumptions in pricing, mix of business, and competitive environment. Changes in interest expense are primarily driven by the level of market interest rates, borrowing spreads, and asset-liability management.

- *Credit Loss* – Credit Loss is reflected within the *Provision for credit losses* on the consolidated income statements.
  - Credit loss is the change in the provision for credit losses at prior period exchange rates. For analysis purposes, management splits the provision for credit losses into net charge-offs and the change in the allowance for credit losses.
  - Net charge-off changes are primarily driven by the number of repossessions, severity per repossession, and recoveries. Changes in the allowance for credit losses are primarily driven by changes in historical trends in credit losses and recoveries, changes in the composition and size of our present portfolio, changes in trends in historical used vehicle values, and changes in forward-looking macroeconomic conditions. For additional information, refer to the "Critical Accounting Estimates - Allowance for Credit Losses" section.

- *Lease Residual* – Lease Residual is reflected within *Depreciation on vehicles subject to operating leases* on the consolidated income statements.
  - Lease residual measures changes to residual performance at prior period exchange rates. For analysis purposes, management splits residual performance primarily into residual gains and losses, and the change in accumulated supplemental depreciation.
  - Residual gain and loss changes are primarily driven by the number of vehicles returned to us and sold, and the difference between the auction value and the depreciated value (which includes both base and accumulated supplemental depreciation) of the vehicles sold. Changes in accumulated supplemental depreciation are primarily driven by changes in our estimate of the expected auction value at the end of the lease term, and changes in our estimate of the number of vehicles that will be returned to us and sold. Depreciation on vehicles subject to operating leases includes early termination losses on operating leases due to customer default events. For additional information, refer to the "Critical Accounting Estimates - Accumulated Depreciation on Vehicles Subject to Operating Leases" section.

- *Exchange* – Reflects changes in EBT driven by the effects of converting functional currency income to U.S. dollars.

- *Other* – Primarily includes *Operating expenses*, *Other revenue*, *Insurance expenses*, and *Other income/(loss), net* on the consolidated income statements at prior period exchange rates.
  - Changes in operating expenses are primarily driven by salaried personnel costs, facilities costs, and costs associated with the origination and servicing of customer contracts.
  - In general, other income/(loss) changes are primarily driven by changes in earnings related to market valuation adjustments to derivatives (primarily related to movements in interest rates), which are included in unallocated risk management, and other miscellaneous items.

In addition, the following definitions and calculations apply to the charts contained in Item 7 of this Report:

- *Cash* (as shown in the Funding and Liquidity section) – *Cash and cash equivalents, Marketable securities*, and restricted cash reported on Ford Credit’s consolidated balance sheets, excluding amounts related to insurance activities.

- *Debt* (as shown in the Key Metrics and Leverage tables) – *Debt* on Ford Credit’s consolidated balance sheets. Includes debt issued in securitizations and payable only out of collections on the underlying securitized assets and related enhancements. Ford Credit holds the right to receive the excess cash flows not needed to pay the debt issued by, and other obligations of, the securitization entities that are parties to those securitization transactions.

- *Earnings Before Taxes* – Reflects *Income before income taxes* as reported on our consolidated income statements.

- *Loss-to-Receivables (“LTR”) Ratio* (as shown in the Credit Loss tables) – LTR ratio is calculated using net charge-offs divided by average finance receivables, excluding unearned interest supplements and the allowance for credit losses.

- *Reserve as a % of EOP Receivables Ratio* (as shown in the Credit Loss tables) – The reserve as a percentage of EOP receivables ratio is calculated as the credit loss reserve amount, divided by end of period (“EOP”) finance receivables, excluding unearned interest supplements and the allowance for credit losses.

- *Return on Equity (“ROE”)* (as shown in the Key Metrics table) – Reflects return on equity calculated by annualizing net income for the period and dividing by monthly average equity for the period.

- *Securitization and Restricted Cash* (as shown in the Liquidity table) – Securitization cash is held for the benefit of the securitization investors (for example, a reserve fund). Restricted cash primarily includes cash held to meet certain local governmental and regulatory reserve requirements and cash held under the terms of certain contractual agreements.

- *Securitizations* (as shown in the Public Term Funding Plan table) – Public securitization transactions, Rule 144A offerings sponsored by Ford Credit, and widely distributed offerings by Ford Credit Canada.

- *Term Asset-Backed Securities* (as shown in the Funding Structure table) – Obligations issued in securitization transactions that are payable only out of collections on the underlying securitized assets and related enhancements.

- *Total Net Receivables* (as shown in the Key Metrics and Financial Condition tables) – Includes finance receivables (retail financing and wholesale) sold for legal purposes and net investment in operating leases included in securitization transactions that do not satisfy the requirements for accounting sale treatment. These receivables and operating leases are reported on Ford Credit’s consolidated balance sheets and are available only for payment of the debt issued by, and other obligations of, the securitization entities that are parties to those securitization transactions; they are not available to pay the other obligations of Ford Credit or the claims of Ford Credit’s other creditors.

- *Unallocated Other* (as shown in the Segment Results table) – Items excluded in assessing segment performance because they are managed at the corporate level, including market valuation adjustments to derivatives and exchange-rate fluctuations on foreign currency-denominated transactions.

Results of Operations

Key Metrics

The following table shows our full year 2024 key metrics compared with full year 2023:

	Full Year		
GAAP Financial Measures	**2023**	**2024**	**H / (L)**
Total net receivables ($B)	$ 133.2	$ 143.6	$ 10.4
Loss-to-receivables (bps) (a)	35	50	15
Auction values (b)	$ 30,950	$ 29,810	(4)%
EBT ($M)	$ 1,322	$ 1,654	$ 332
ROE (%)	10.6 %	9.1 %	(1.5) ppts
Other Balance Sheet Metrics			
Debt ($B)	$ 129.3	$ 137.9	$ 8.6
Net liquidity ($B)	$ 25.7	$ 25.2	$ (0.5)
Financial statement leverage (to 1)	9.7	10.0	0.3

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(a) United States retail financing only.
(b) United States 36-month off-lease auction values at full year 2024 mix.

Full Year 2024 Compared with Full Year 2023

The following table shows the factors that contributed to the full year 2024 EBT (in millions):

Change in EBT by Causal Factor	
Full year 2023 EBT	$ 1,322
Volume / mix	177
Financing margin	709
Credit loss	(138)
Lease residual	(376)
Exchange	12
Other	(52)
Full year 2024 EBT	**$ 1,654**

Our 2024 EBT of $1,654 million was $332 million higher than a year ago, explained primarily by higher financing margin and favorable volume and mix, offset partially by higher operating lease depreciation reflecting higher return rates and lower expected auction values, and higher retail credit losses. Total net receivables at December 31, 2024 were $10.4 billion higher than a year ago, reflecting higher consumer and non-consumer financing and a larger lease portfolio. The 2024 U.S. retail LTR ratio of 50 basis points increased from a year ago and U.S. auction values in 2024 decreased 4% year over year. ROE was 9.1%, 1.5 percentage points lower than a year ago, primarily reflecting lower net income as the result of a higher effective tax rate.

Our balance sheet is strong and inherently liquid reflecting cumulative debt maturities having a longer tenor than asset maturities. At December 31, 2024, we had $25.2 billion in net liquidity.

Segment Results

Results of operations by segment and Unallocated Other for full year 2023 and 2024 are shown below (in millions):

	Full Year		
	2023	**2024**	**H / (L)**
Results			
United States and Canada segment	$ 1,114	$ 1,460	$ 346
Europe segment	306	357	51
All Other segment	75	60	(15)
Total segments	$ 1,495	$ 1,877	$ 382
Unallocated Other	(173)	(223)	(50)
Earnings before taxes	$ 1,322	$ 1,654	$ 332
(Provision for)/Benefit from income taxes (a)	2	(398)	(400)
Net Income	$ 1,324	$ 1,256	$ (68)

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(a) Our 2023 *(Provision for)/Benefit from income taxes* reflects a benefit of $343 million associated with legal entity restructuring actions within our leasing operations.

For additional information, see Note 14 of our Notes to the Financial Statements.

United States and Canada Segment

The United States and Canada segment EBT of $1,460 million for full year 2024 was $346 million higher than 2023, explained primarily by higher financing margin and favorable volume and mix, offset partially by higher operating lease depreciation reflecting higher return rates and lower expected auction values, and higher credit losses.

Europe Segment

The Europe segment EBT of $357 million for full year 2024 was $51 million higher than 2023, explained primarily by a realized gain on accumulated foreign currency translation from restructuring and higher financing margin, offset partially by higher credit losses.

All Other Segment

The All Other segment EBT of $60 million for full year 2024 was $15 million lower than 2023, explained primarily by lower volume in China and higher credit losses, offset partially by higher financing margin.

Unallocated Other

The Unallocated Other was a $223 million loss for full year 2024, a $50 million deterioration from 2023, primarily reflecting an increase in unfavorable derivative market valuation adjustment compared to prior year.

Results of Operations - 2023

The following chart shows our full year 2023 key metrics compared with full year 2022:

	Full Year		
GAAP Financial Measures	**2022**	**2023**	**H / (L)**
Total net receivables ($B)	$ 122.3	$ 133.2	$ 10.9
Loss-to-receivables (bps) (a)	14	35	21
Auction values (b)	$ 33,280	$ 30,950	(7)%
EBT ($M)	$ 2,437	$ 1,322	$ (1,115)
ROE (%)	16.4 %	10.6 %	(5.8) ppts
Other Balance Sheet Metrics			
Debt ($B)	$ 119.0	$ 129.3	$ 10.3
Net liquidity ($B)	$ 21.1	$ 25.7	$ 4.6
Financial statement leverage (to 1)	10.0	9.7	(0.3)

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(a) United States retail financing only.
(b) United States 36-month off-lease auction values at full year 2024 mix.

Full Year 2023 Compared with Full Year 2022

The following table shows the factors that contributed to the full year 2023 EBT (in millions):

Change in EBT by Causal Factor	
Full year 2022 EBT	$ 2,437
Volume / mix	153
Financing margin	(493)
Credit loss	(239)
Lease residual	(466)
Exchange	18
Other	(88)
Full year 2023 EBT	**$ 1,322**

Our 2023 EBT of $1,322 million was $1,115 million lower than 2022, explained primarily by lower financing margin driven by higher borrowing costs, the non-recurrence of supplemental depreciation and credit loss reserve releases, lower lease residual performance, unfavorable derivative market valuation, and higher credit losses, offset partially by the non-recurrence of South America restructuring losses. Total net receivables at December 31, 2023 were $10.9 billion higher than December 31, 2022, primarily reflecting higher consumer and non-consumer financing and currency exchange rates, offset partially by fewer operating leases. The 2023 U.S. retail LTR ratio of 35 basis points increased compared to the prior year and U.S. auction values were down 7% compared with 2022. ROE was 10.6%, 5.8 percentage points lower than 2022, primarily reflecting lower EBT.

Our balance sheet is strong and inherently liquid reflecting cumulative debt maturities having a longer tenor than asset maturities. At December 31, 2023, we had $25.7 billion in net liquidity.

Segment Results - 2023

Results of operations by segment and Unallocated Other for full year 2022 and 2023 are shown below (in millions):

	Full Year		
	2022	**2023**	**H / (L)**
Results			
United States and Canada segment	$ 2,094	$ 1,114	$ (980)
Europe segment	314	306	(8)
All Other segment	(138)	75	213
Total segments	$ 2,270	$ 1,495	$ (775)
Unallocated Other	167	(173)	(340)
Earnings before taxes	$ 2,437	$ 1,322	$ (1,115)
(Provision for)/Benefit from income taxes (a)	(448)	2	450
Net Income	$ 1,989	$ 1,324	$ (665)

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(a) Our 2023 *(Provision for)/Benefit from income taxes* reflects a benefit of $343 million associated with legal entity restructuring actions within our leasing operations.

For additional information, see Note 14 of our Notes to the Financial Statements.

United States and Canada Segment

The United States and Canada segment EBT of $1,114 million for full year 2023 was $980 million lower than 2022, explained primarily by lower financing margin driven by higher borrowing costs, non-recurrence of supplemental depreciation and credit loss reserve releases, lower lease residual performance, and higher credit losses.

Europe Segment

The Europe segment EBT of $306 million for full year 2023 was $8 million lower than 2022, explained primarily by non-recurrence of residual gains, higher operating costs primarily relating to restructuring, and lower credit loss reserve releases, offset partially by favorable changes in wholesale volumes and financing margin.

All Other Segment

The All Other segment EBT of $75 million for full year 2023 was $213 million higher than 2022, explained primarily by the non-recurrence of South America restructuring losses.

Unallocated Other

The Unallocated Other was a $173 million loss for full year 2023, a $340 million deterioration from 2022, primarily reflecting negative derivative market valuation adjustments in 2023, and non-recurrence of positive derivative market valuation adjustments recognized in 2022.

Financing Shares and Contract Placement Volume

Our focus is on supporting Ford and Lincoln dealers and customers. This includes going to market with Ford and our dealers to support vehicle sales with financing products and marketing programs. Ford's marketing programs may encourage or require Ford Credit financing and influence the financing choices customers make. As a result, our financing share, volume, and contract characteristics vary from period to period as Ford's marketing programs change.

The following table shows our retail financing and operating lease share of new Ford and Lincoln vehicle sales, wholesale financing share of new Ford and Lincoln vehicles acquired by dealers (in percent), and contract placement volume for new and used vehicles (in thousands) in several key markets:

	For the Years Ended December 31,		
	2022	2023	2024
Share of Ford and Lincoln Sales (a)			
United States	41 %	51 %	53 %
Canada	73	71	72
United Kingdom	36	33	30
Germany	35	35	41
China	45	37	21
Wholesale Share			
United States	73 %	71 %	71 %
United Kingdom	100	100	100
Germany	92	88	89
China	67	70	69
Contract Placement Volume - New and Used (000)			
United States	664	826	878
Canada	138	123	151
United Kingdom	93	87	71
Germany	60	61	69
China	130	97	52

(a) United States and Canada exclude Fleet sales, other markets include Fleet.

United States contract placement volumes in 2024 were higher than a year ago, reflecting higher Ford deliveries and Ford Credit share. Canada contract placement volumes in 2024 were higher than a year ago, reflecting higher Ford deliveries and Ford Credit share. United Kingdom contract placement volumes in 2024 were down, driven by lower Ford deliveries and lower Ford Credit share. Germany contract placement volumes in 2024 were higher, driven by higher Ford Credit share, offset partially by lower Ford deliveries. China contract placement volumes in 2024 were lower than a year ago, reflecting lower Ford Credit share and Ford deliveries.

Financial Condition

Our receivables, including finance receivables and operating leases, were as follows (in billions):

	For the Years Ended December 31,		
Net Receivables	**2022**	**2023**	**2024**
United States and Canada Segment			
Consumer financing	$ 55.8	$ 62.2	$ 67.8
Non-Consumer financing	21.4	25.4	29.7
Net investment in operating leases	21.7	20.1	21.4
Total United States and Canada Segment	$ 98.9	$ 107.7	$ 118.9
Europe Segment			
Consumer financing	$ 11.0	$ 11.7	$ 12.0
Non-Consumer financing	7.3	8.3	8.2
Net investment in operating leases	0.1	0.3	0.3
Total Europe Segment	$ 18.4	$ 20.3	$ 20.5
All Other Segment			
Consumer financing	$ 3.9	$ 3.6	$ 2.6
Non-Consumer financing	1.1	1.6	1.6
Net investment in operating leases	—	—	—
Total All Other Segment	$ 5.0	$ 5.2	$ 4.2
Total net receivables	$ 122.3	$ 133.2	$ 143.6

At December 31, 2022, 2023, and 2024, total net receivables includes consumer receivables before allowance for credit losses of $43.9 billion, $46.0 billion, and $47.6 billion, respectively, and non-consumer receivables before allowance for credit losses of $18.2 billion, $21.3 billion, and $24.4 billion, respectively, that have been sold for legal purposes in securitization transactions but continue to be reported in our consolidated financial statements. In addition, at December 31, 2022, 2023, and 2024, total net receivables includes net investment in operating leases of $12.5 billion, $11.2 billion, and $13.3 billion, respectively, that have been included in securitization transactions but continue to be reported in our consolidated financial statements. The receivables and net investment in operating leases are available only for payment of the debt issued by, and other obligations of, the securitization entities that are parties to those securitization transactions; they are not available to pay the other obligations or the claims of our other creditors. We hold the right to receive the excess cash flows not needed to pay the debt issued by, and other obligations of, the securitization entities that are parties to those securitization transactions. For additional information on our securitization transactions, refer to the "Securitization Transactions" and "On-Balance Sheet Arrangements" sections and Note 6 of our Notes to the Financial Statements herein.

Total net receivables at December 31, 2024 were $10.4 billion higher compared with December 31, 2023, reflecting higher consumer and non-consumer financing and a larger lease portfolio.

Our operating lease portfolio was 15% of total net receivables at December 31, 2024. Leasing is an important product, and our leasing strategy balances sales, share, residuals, and long-term profitability. Operating leases in the United States and Canada represent 99% of our total operating lease portfolio.

Credit Risk

Credit risk is the possibility of loss from a customer's or dealer's failure to make payments according to contract terms. Credit losses are a normal part of a lending business, and credit risk has a significant impact on our business. We manage the credit risk of our consumer (retail financing) and non-consumer (dealer financing) receivables to balance our level of risk and return using our consistent underwriting standards, effective proprietary scoring system (discussed below), and world-class servicing. The allowance for credit losses (also referred to as the credit loss reserve) represents our estimate of the expected credit losses inherent in our finance receivables for the lifetime of those receivables as of the balance sheet date. The allowance for credit losses is estimated using a combination of models and management judgment and is based on such factors as historical loss performance, portfolio quality, receivable levels, and forward-looking macroeconomic scenarios. The adequacy of our allowance for credit losses is assessed quarterly and the assumptions and models used in establishing the allowance are evaluated regularly. A description of our allowance setting process is provided in the "Critical Accounting Estimates - Allowance for Credit Losses" section.

Most of our charge-offs are related to retail financing. Net charge-offs are affected by the number of vehicle repossessions, the unpaid balance outstanding at the time of repossession, the auction price of repossessed vehicles, and other amounts owed. We also incur credit losses on our dealer financing, but default rates for these receivables historically have been substantially lower than those for retail financing.

In purchasing retail financing contracts, we use a proprietary scoring system that measures credit quality using information from sources including the credit application, proposed contract terms, credit bureau data, and other information. After a proprietary risk score is generated, we decide whether to purchase a contract using a decision process based on a judgmental evaluation of the applicant, the credit application, the proposed contract terms, credit bureau information (e.g., FICO score), proprietary risk score, and other information. Our evaluation emphasizes the applicant's ability to pay and the applicant's creditworthiness with a focus on payment, affordability, applicant credit history, and stability as key considerations. While FICO is a part of our scoring system, our models enable us to more effectively determine the probability that a customer will pay than using credit scores alone. When we originate business, our models project expected losses and we price accordingly. We ensure the business fits our risk appetite.

For additional information on our allowance for credit losses and the quality of our receivables, see Note 4 of our Notes to the Financial Statements.

United States Origination Metrics

The following table shows United States retail financing and operating lease average placement FICO and higher risk portfolio mix metrics. Also shown are extended term mix and United States retail financing average placement terms.

	2022	2023	2024
Origination Metrics			
Retail & lease average placement FICO	747	756	756
Retail & lease higher risk portfolio mix	5 %	4 %	3 %
Retail greater than or equal to 84 months placement mix	7 %	8 %	7 %
Retail average placement term (months)	63	63	65

The 2024 average placement FICO score remained strong. We support customers across the credit spectrum. Our higher risk business, as classified at contract inception, represents 3% of our portfolio and has been stable for over 15 years.

In 2024, our average retail financing placement term was slightly higher than a year ago. Retail financing contracts of 84 months and longer decreased by 1 percentage point compared with a year ago and continue to be a small part of our business. We remain focused on managing the trade cycle, building customer relationships and loyalty, while offering financing products and terms customers want. Ford Credit's origination and risk management processes deliver robust portfolio performance.

United States Retail Financing Credit Losses

The following table shows the primary drivers of credit losses in the United States retail financing business, which comprised 72% of our worldwide consumer finance receivables at December 31, 2024.

	2022	2023	2024
Credit Loss Drivers			
Over-60-Day delinquencies (excl. bankruptcies)	0.15 %	0.18 %	0.19 %
Repossessions (000)	14	16	21
Repossession ratio	0.74 %	0.85 %	1.08 %
Loss severity (000) (a)	$ 9.0	$ 12.2	$ 16.1
Net charge-offs ($M)	$ 67	$ 184	$ 301
LTR ratio (b)	0.14 %	0.35 %	0.50 %

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(a) The expected difference between the amount a customer owes when the finance contract is charged off and the amount received, net of expenses, from selling the repossessed vehicle.
(b) See *Definitions and Information Regarding Causal Factors* section for calculation.

The 2024 repossession ratio increased from a year ago by 23 basis points, but remains below the full year 2017 through 2019 average of 1.27%. Loss severity increased from a year ago, reflecting higher average amount financed and vehicle mix. The full year 2024 LTR ratio of 0.50% increased from a year ago, reflecting higher repossessions and increased loss severity. From 2017 through 2019, the full year LTR ratio averaged 0.56%.

Worldwide Credit Losses

The following table shows key metrics related to worldwide credit losses:

	2022	2023	2024
Net charge-offs ($M)	$ 109	$ 252	$ 412
LTR ratio (a)	0.11 %	0.24 %	0.34 %
Credit loss reserve ($M)	$ 845	$ 882	$ 864
Reserve as percent of EOP Receivables (a)	0.82 %	0.75 %	0.68 %

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(a) See *Definitions and Information Regarding Causal Factors* section for calculation.

Our worldwide credit loss metrics remain strong. Net charge-offs and the worldwide LTR ratio in 2024 increased from a year ago, primarily driven by U.S. retail.

Our credit loss reserve is based on such factors as historical loss performance, portfolio quality, receivables level, and forward-looking macroeconomic scenarios. Our credit loss reserve reflects lifetime expected losses as of the balance sheet date and is adjusted accordingly based on our assessment of the portfolio and economic trends and conditions. The credit loss reserve at December 31, 2024 was lower than a year ago, reflecting improvement in the macroeconomic outlook, offset partially by an increase in finance receivables. See Note 4 of our Notes to the Financial Statements for more information.

Residual Risk

Leasing is an important product that many customers want and value, and operating lease customers also are more likely to buy or lease another Ford or Lincoln vehicle. We manage our lease share with an enterprise view to support sales, protect residual values, and manage the trade cycle. Ford Credit and Ford work together under a leasing strategy that considers share, term, model mix, geography, and other factors.

We are exposed to residual risk on operating leases and similar balloon payment products where the customer may return the financed vehicle to us. At the time we purchase a lease, we establish an expected residual value for the vehicle. Residual risk is the possibility that the amount we obtain from returned vehicles will be less than our estimate of the expected residual value for the vehicle. We estimate the expected residual value based on recent auction values, return volumes for our leased vehicles, industrywide used vehicle prices, marketing incentive plans, and vehicle quality data, and benchmark to third-party data depending on availability. For operating leases, changes in expected residual values impact depreciation expense, which is recognized on a straight-line basis over the life of the lease.

For additional information on our residual risk on operating leases, refer to the "Critical Accounting Estimates - Accumulated Depreciation on Vehicles Subject to Operating Leases" section and Note 5 of our Notes to the Financial Statements.

United States Ford and Lincoln Operating Leases

The following table shows our share of Ford and Lincoln retail financing and operating lease sales, placement volume, and residual performance metrics for our United States operating lease portfolio, which represents 75% of our total net investment in operating leases at December 31, 2024.

	2022	2023	2024
Lease Share of Retail Sales			
Ford Credit	12 %	12 %	14 %
Industry (a)	17 %	20 %	24 %
Placement Volume (000)			
24-Month	43	34	43
36-Month	95	108	126
39-Month / other	26	34	46
Total	164	176	215
Residual Performance			
Return rates	12 %	27 %	52 %
Return volume (000)	39	74	99
Off-lease auction values (b)	$ 33,280	$ 30,950	$ 29,810

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(a) Source: J.D. Power PIN.
(b) United States 36-month off-lease auction values at full year 2024 mix.

Our United States operating lease share of retail sales in 2024 was higher than a year ago and remains below the industry, reflecting the Ford sales mix. Our total 2024 lease placement volume was up compared with a year ago, reflecting higher Ford retail sales and Ford Credit lease share.

Lease return rates and return volume in 2024 were higher than a year ago, aligned with our expectations. Our 2024 36-month off-lease auction values were down 4% from the prior year. We expect auction values to decline modestly in 2025.

Credit Ratings

Our short-term and long-term debt is rated by four credit rating agencies designated as nationally recognized statistical rating organizations ("NRSROs") by the SEC: DBRS, Fitch, Moody's, and S&P.

In several markets, locally recognized rating agencies also rate us. A credit rating reflects an assessment by the rating agency of the credit risk associated with a corporate entity or particular securities issued by that entity. Rating agencies' ratings of us are based on information provided by us and other sources. Credit ratings assigned to us from all of the NRSROs are closely associated with their opinions on Ford. Credit ratings are not recommendations to buy, sell, or hold securities and are subject to revision or withdrawal at any time by the assigning rating agency. Each rating agency may have different criteria for evaluating company risk and, therefore, ratings should be evaluated independently for each rating agency.

There have been no rating actions taken by these NRSROs since the filing of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2024.

The following table summarizes certain of the credit ratings and outlook presently assigned by these four NRSROs:

	NRSRO RATINGS			
	Ford Credit			NRSROs
	Long-Term Senior Unsecured	Short -Term Unsecured	Outlook/ Trend	Minimum Long-Term Investment Grade Rating
DBRS	BBB (low)	R-2 (low)	Stable	BBB (low)
Fitch	BBB-	F3	Stable	BBB-
Moody's	Ba1	NP	Stable	Baa3
S&P	BBB-	A-3	Stable	BBB-

Funding and Liquidity

We remain well capitalized with a strong balance sheet and funding diversified across platforms and markets. We continue to have robust access to capital markets and ended 2024 with $25.2 billion of liquidity.

Key elements of our funding strategy include:

- Maintain strong liquidity and funding diversity;
- Prudently access public markets;
- Continue to leverage retail deposits in Europe;
- Flexibility to increase ABS mix as needed; preserving assets and committed capacity;
- Target financial statement leverage of 9:1 to 10:1; and
- Maintain self-liquidating balance sheet.

Our liquidity profile continues to be diverse, robust, and focused on maintaining liquidity levels that meet our business and funding requirements. We regularly stress test our balance sheet and liquidity to ensure that we continue to meet our financial obligations through economic cycles.

Funding Sources

Our funding sources include primarily unsecured debt and securitization transactions (including other structured financings). We issue both short-term and long-term debt that is held by both institutional and retail investors, with long-term debt having an original maturity of more than 12 months.

We sponsor a number of securitization programs that can be structured to provide both short-term and long-term funding through institutional investors and other financial institutions in the United States and international capital markets. For additional information on our securitization transactions, refer to the "Securitization Transactions" section.

We obtain unsecured funding from the sale of demand notes under our Ford Interest Advantage program and through retail deposit programs at FCE and Ford Bank. At December 31, 2024, the principal amount outstanding of Ford Interest Advantage notes, which may be redeemed at any time at the option of the holders thereof without restriction, and FCE and Ford Bank deposits was $18.3 billion. We maintain multiple sources of readily available liquidity to fund the payment of our unsecured short-term debt obligations.

Cost of Funding Sources

The cost of securitization transactions and unsecured debt funding is based on a margin or spread over a benchmark interest rate. Our asset-backed funding and unsecured long-term debt costs are based on spreads over United States Treasury securities of similar maturities, Secured Overnight Funding Rate ("SOFR"), or other comparable benchmark rates. Certain securitization funding costs are based on a spread over bank-sponsored commercial paper costs. The funding costs of our floating rate demand notes change depending on market conditions. For additional information on funding, see Note 9 of our Notes to the Financial Statements.

Funding and Liquidity

The following table shows funding for our net receivables (in billions):

Funding Structure	**December 31, 2022**	**December 31, 2023**	**December 31, 2024**
Term unsecured debt	$ 48.3	$ 54.1	$ 59.2
Term asset-backed securities	56.4	58.0	60.4
Retail deposits/Ford Interest Advantage	14.3	17.2	18.3
Other	2.7	1.4	1.2
Equity	11.9	13.4	13.8
Cash	(11.3)	(10.9)	(9.3)
Total Net Receivables	$ 122.3	$ 133.2	$ 143.6
Securitized Funding as a percent of Total Debt	47.4 %	44.9 %	43.8 %

Net receivables of $143.6 billion at December 31, 2024, were funded primarily with term unsecured debt and term asset-backed securities. Securitized funding as a percent of total debt was 43.8% at December 31, 2024.

Public Term Funding Plan

The following table shows our issuances for full year 2022, 2023, and 2024, and planned issuances for full year 2025, excluding short-term funding programs (in billions):

	2022 Actual	**2023 Actual**	**2024 Actual**	**2025 Forecast**
Unsecured	$ 6	$ 14	$ 17	$ 11 -14
Securitizations	10	14	16	13 -16
Total public	$ 16	$ 28	$ 33	$ 24 - 30

In 2024, we completed $33 billion of public term funding. For 2025, we project full-year public term funding in the range of $24 billion to $30 billion. Through February 4, 2025, we completed $5 billion of public term issuances.

Liquidity

We define available liquidity as cash, cash equivalents, and marketable securities (excluding amounts related to insurance activities) and committed capacity (which includes our asset-backed facilities and unsecured credit facilities), less utilization of liquidity. Utilization of liquidity is the amount funded under our liquidity sources and also includes the cash required to support securitization transactions and restricted cash. Net liquidity available for use is defined as available liquidity plus certain adjustments as shown in the table below.

The following table shows our liquidity sources and utilization (in billions):

	December 31, 2022	December 31, 2023	December 31, 2024
Liquidity Sources			
Cash	$ 11.3	$ 10.9	$ 9.3
Committed asset-backed facilities	37.4	42.9	42.9
Other unsecured credit facilities	2.3	2.4	1.7
Total liquidity sources	$ 51.0	$ 56.2	$ 53.9
Utilization of Liquidity			
Securitization and restricted cash	$ (2.9)	$ (2.8)	$ (3.1)
Committed asset-backed facilities	(26.6)	(27.5)	(25.6)
Other unsecured credit facilities	(0.8)	(0.4)	(0.5)
Total utilization of liquidity	$ (30.3)	$ (30.7)	$ (29.2)
Available liquidity	$ 20.7	$ 25.5	$ 24.7
Other adjustments	0.4	0.2	0.5
Net liquidity available for use	$ 21.1	$ 25.7	$ 25.2

Our net liquidity available for use will fluctuate quarterly based on factors including near-term debt maturities, receivable growth and decline, and timing of funding transactions. At December 31, 2024, our net liquidity available for use was $25.2 billion, $0.5 billion lower than year-end 2023. At December 31, 2024, our liquidity sources totaled $53.9 billion, down $2.3 billion from year-end 2023, primarily explained by lower cash.

Cash. At December 31, 2024, our cash totaled $9.3 billion compared with $10.9 billion at year-end 2023. In the normal course of our funding activities, we may generate more proceeds than are required for our immediate funding needs. These excess amounts are held primarily in highly liquid investments, which provide liquidity for our anticipated and unanticipated cash needs and give us flexibility in the use of our other funding programs. Our cash primarily includes United States Department of Treasury obligations, federal agency securities, bank time deposits with investment-grade institutions, investment-grade commercial paper, debt obligations of a select group of non-U.S. governments, non-U.S. governmental agencies, supranational institutions, non-U.S. central banks, and money market funds that carry the highest possible ratings.

The average maturity of these investments ranges from overnight to six months and is adjusted based on market conditions and liquidity needs. We monitor our cash levels and average maturity on a daily basis. Cash includes restricted cash and amounts to be used only to support our securitization transactions of $2.8 billion and $3.1 billion at December 31, 2023 and 2024, respectively.

Material Cash Requirements. Our material cash requirements include: (1) the purchase of retail financing and operating lease contracts from dealers and providing wholesale financing for dealers to finance new and used vehicles; and (2) debt repayments (for additional information on debt, see the "Balance Sheet Liquidity Profile" section below and Note 9 of our Notes to the Financial Statements). In addition, subject to approval by our Board of Directors, shareholder distributions may require the expenditure of a material amount of cash. Moreover, we may be subject to additional material cash requirements that are contingent upon the occurrence of certain events, e.g., legal contingencies, uncertain tax positions, and other matters.

We are party to certain contractual obligations involving commitments to make payments to others. Most of these are debt obligations, which are recorded on our balance sheets and disclosed in our Notes to the Financial Statements. Long-term debt may have fixed or variable interest rates. For long-term debt with variable rate interest, we estimate the future interest payments based on projected market interest rates for various floating rate benchmarks received from third parties. In addition, we may enter into contracts with suppliers for purchases of certain services, including operating lease commitments. These arrangements may contain minimum levels of service requirements. Our aggregate contractual obligations at December 31, 2024 are shown below (in millions):

	Payments Due by Period				
	2025	2026 - 2027	2028 - 2029	2030 and Thereafter	Total
On-balance sheet					
Long-term debt (a)	$ 35,921	$ 52,596	$ 21,174	$ 12,061	$ 121,752
Interest payments relating to long-term debt	5,133	6,031	2,501	1,401	15,066
Operating lease	16	21	4	7	48
Off-balance sheet					
Purchase obligations	59	56	15	—	130
Total	$ 41,129	$ 58,704	$ 23,694	$ 13,469	$ 136,996

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(a) Excludes unamortized discounts, unamortized issuance costs, and fair value adjustments.

We plan to utilize our liquidity (as described above) and our cash flows from business operations to fund our material cash requirements.

Committed Capacity. At December 31, 2024, our committed capacity totaled $44.6 billion, compared with $45.3 billion at December 31, 2023. Our committed capacity is primarily comprised of committed ABS facilities from bank-sponsored commercial paper conduits and other financial institutions and committed unsecured credit facilities with financial institutions.

Committed Asset-Backed Facilities. We and our subsidiaries have entered into agreements with a number of bank-sponsored asset-backed commercial paper conduits and other financial institutions. Such counterparties are contractually committed, at our option, to purchase from us eligible retail financing receivables or to purchase or make advances under asset-backed securities backed by retail financing or wholesale finance receivables or operating leases for proceeds of up to $42.9 billion ($24.5 billion of retail financing, $10.4 billion of operating leases, and $8.0 billion of wholesale financing) at December 31, 2024. In the United States, we are able to obtain funding within two days for our unutilized capacity in some of our committed asset-backed facilities. These committed facilities have varying maturity dates, with $16.1 billion having maturities within the next twelve months and the remaining balance having maturities through fourth quarter 2026. We plan capacity renewals to protect our global funding needs and to optimize capacity utilization.

Our ability to obtain funding under these facilities is subject to having a sufficient amount of eligible assets as well as our ability to obtain interest rate hedging arrangements for certain facilities. At December 31, 2024, $25.6 billion of these commitments were in use and we had $0.1 billion of asset-backed capacity that was in excess of eligible receivables. These programs are free of material adverse change clauses, restrictive financial covenants (for example, debt-to-equity limitations and minimum net worth requirements), and generally, credit rating triggers that could limit our ability to obtain funding. However, the unused portion of these commitments may be terminated if the performance of the underlying assets deteriorates beyond specified levels. Based on our experience and knowledge as servicer of the related assets, we do not expect any of these programs to be terminated due to such events.

As of December 31, 2024, FCE had liquidity of £199 million (equivalent to $250 million) in the form of eligible collateral available for use in the monetary policy programs of the Bank of England. In addition, Ford Bank had liquidity of €346 million (equivalent to $360 million) in the form of eligible collateral available for use in the monetary policy programs of the European Central Bank.

Unsecured Credit Facilities. At December 31, 2024, we and our subsidiaries had $1.7 billion of contractually committed unsecured credit facilities with financial institutions, including FCE's syndicated credit facility (the "FCE Credit Agreement") and the Ford Bank's syndicated credit facility (the "Ford Bank Credit Agreement"). At December 31, 2024, $1.2 billion was available for use.

At December 31, 2024, £361 million (equivalent to $452 million) was available for use under FCE's £685 million (equivalent to $859 million) Credit Agreement and all €210 million (equivalent to $219 million) was available for use under the Ford Bank Credit Agreement. Both the FCE Credit Agreement and Ford Bank Credit Agreement mature in 2027.

Both the FCE Credit Agreement and Ford Bank Credit Agreement contain certain covenants, including an obligation for FCE and Ford Bank to maintain their ratio of regulatory capital to risk-weighted assets at no less than the applicable regulatory minimum. The FCE Credit Agreement requires the support agreement between FCE and Ford Credit to remain in effect (and enforced by FCE to ensure that its net worth is maintained at no less than $500 million). The Ford Bank Credit Agreement requires a guarantee of Ford Bank's obligations under the agreement, provided by Ford Credit, to remain in effect. In addition, both the FCE Credit Agreement and the Ford Bank Credit Agreement include certain sustainability-linked targets, pursuant to which the applicable margin may be adjusted if Ford achieves, or fails to achieve, the specified targets related to global manufacturing facility greenhouse gas emissions, carbon-free electricity consumption, and Ford Europe CO_2 tailpipe emissions. Prior to 2024, the specified targets related to global manufacturing facility greenhouse gas emissions, renewable electricity consumption, and Ford Europe CO_2 tailpipe emissions. Ford outperformed all three of the sustainability-linked metrics for the most recent performance period.

Balance Sheet Liquidity Profile

We define our balance sheet liquidity profile as the cumulative maturities, including the impact of expected prepayments and allowance for credit losses, of our finance receivables, investment in operating leases, and cash, less the cumulative debt maturities over upcoming annual periods. Our balance sheet is inherently liquid because of the short-term nature of our finance receivables, investment in operating leases, and cash. We ensure our cumulative debt maturities have a longer tenor than our cumulative asset maturities. This positive maturity profile is intended to provide additional liquidity after all of our assets have been funded and is in addition to liquidity available to protect for stress scenarios.

The following table shows our cumulative maturities for assets and total debt for the periods presented and unsecured long-term debt maturities in the individual periods presented (in billions):

	2025	2026	2027	2028 & Beyond
Balance Sheet Liquidity Profile				
Assets (a)	$ 79	$ 109	$ 134	$ 160
Total debt (b)	63	91	109	139
Memo: Unsecured long-term debt maturities	13	13	11	25

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(a) Includes gross finance receivables less the allowance for credit losses, investment in operating leases net of accumulated depreciation, and cash. Amounts shown include the impact of expected prepayments.
(b) Excludes unamortized debt (discount)/premium, unamortized issuance costs, and fair value adjustments.

Maturities of investment in operating leases consist primarily of the portion of rental payments attributable to depreciation over the remaining life of the lease and the expected residual value at lease termination. Maturities of finance receivables and investment in operating leases in the table above include expected prepayments for our retail installment sale contracts and investment in operating leases. The table above also reflects adjustments to debt maturities to match the asset-backed debt maturities with the underlying asset maturities.

All wholesale securitization transactions and wholesale receivables are shown maturing in the next 12 months, even if the maturities extend beyond 2025. The retail securitization transactions under certain committed asset-backed facilities are assumed to amortize immediately rather than amortizing after the expiration of the commitment period. As of December 31, 2024, we had $160 billion of assets, $72 billion of which were unencumbered. For additional information on finance receivables, investment in operating leases, and debt, see Notes 4, 5, and 9 of our Notes to the Financial Statements.

Funding and Liquidity Risks

Our funding plan is subject to risks and uncertainties, many of which are beyond our control, including disruption in the capital markets that could impact both unsecured debt and asset-backed securities issuance and the effects of regulatory changes on the financial markets.

Despite our diverse sources of funding and liquidity, our ability to maintain liquidity may be affected by, among others, the following factors (not necessarily listed in order of importance or probability of occurrence):

- Prolonged disruption of the debt and securitization markets;
- Global capital markets volatility;
- Credit ratings assigned to Ford and us;
- Market capacity for Ford- and Ford Credit-sponsored investments;
- General demand for the type of securities we offer;
- Our ability to continue funding through asset-backed financing structures;
- Performance of the underlying assets within our asset-backed financing structures;
- Inability to obtain hedging instruments;
- Accounting and regulatory changes; and
- Our ability to maintain credit facilities and committed asset-backed facilities.

Stress Tests

We regularly conduct stress testing on funding and liquidity sources to ensure we can continue to meet our financial obligations and support the sale of Ford and Lincoln vehicles during firm-specific and market-wide stress events. Stress tests are intended to quantify the potential impact of various adverse scenarios on the balance sheet and liquidity. These scenarios include assumptions on access to unsecured and secured debt markets, runoff of short-term funding, and ability to renew expiring liquidity commitments and are measured over various time periods, including 30 days, 90 days, and longer term. Our stress test does not assume any additional funding, liquidity, or capital support from Ford. We routinely develop contingency funding plans as part of our liquidity stress testing.

Securitization Transactions

Overview

We securitize finance receivables and net investment in operating leases through a variety of programs using amortizing, variable funding, and revolving structures. We also sell finance receivables or pledge them as collateral, in certain transactions outside of the United States, in other types of structured financing transactions. Due to the similarities between securitization and structured financing, we refer to structured financings as securitization transactions. Our securitization programs are targeted to institutional investors and other financial institutions in both public and private transactions. We completed our first securitization transaction in 1988, and participate in a number of securitization markets primarily in the United States, Canada, Mexico, Germany, Italy, the United Kingdom, and China.

Securitization provides us with a lower cost source of funding compared with other alternatives, diversifies our funding among different markets and investors, and provides additional liquidity. In the United States, we are able to obtain funding within two days for our unutilized capacity in some of our committed asset-backed facilities.

Our securitization transactions involve sales to consolidated entities or we maintain control over the assets, and therefore, the securitized assets and related debt remain on our balance sheets and affect our financial condition, operating results, and liquidity.

Use of Special Purpose Entities

In a securitization transaction, the securitized assets are generally held by a bankruptcy-remote special purpose entity ("SPE") in order to isolate the securitized assets from the claims of our creditors and ensure that the cash flows on the securitized assets are available for the benefit of securitization investors. Payments to securitization investors are made from cash flows on the securitized assets and any enhancements in the SPE, and not by Ford Credit and are not based on our creditworthiness. Senior asset-backed securities issued by the SPEs generally receive the highest credit ratings from the rating agencies that rate them.

Securitization SPEs have limited purposes and generally are only permitted to purchase the securitized assets, issue asset-backed securities, and make payments on the securities. Some SPEs, such as certain trusts that issue securities backed by retail installment sale contracts, only issue a single series of securities and are dissolved when those securities have been paid in full. Other SPEs, such as the trust that issues securities backed by wholesale receivables, issue multiple series of securities from time to time and may not be dissolved until the last series of securities is paid in full.

Our use of SPEs in our securitization transactions is consistent with conventional practices in the consumer asset-backed securitization industry. We sponsor the SPEs used in all of our securitization programs with the exception of bank-sponsored conduits. None of our officers, directors, or employees holds any equity interests in our SPEs or receives any direct or indirect compensation from the SPEs. These SPEs do not own our Shares or shares of any of our affiliates.

Selection of Assets, Enhancements, and Retained Interests

In order to be eligible for inclusion in a securitization transaction, each asset must satisfy certain eligibility criteria designed for the specific transaction. For example, for securitization transactions of retail installment sale contracts, the selection criteria may be based on factors such as location of the obligor, contract term, payment schedule, interest rate, financing program, the type of financed vehicle, and whether the contracts are active and in good standing (e.g., when the obligor is not more than 30-days delinquent or bankrupt). Subject to regulatory or rating agency requirements, and investor demand, it is our practice to satisfy the applicable eligibility criteria by selecting the assets to be included in a particular securitization from our entire portfolio of assets in a manner that is believed to not be adverse to the investors.

We provide various forms of credit and payment enhancement to increase the likelihood of receipt by securitization investors of the full amount of interest and principal due on their asset-backed securities. Credit enhancement includes (i) over-collateralization (when the principal amount of the securitized assets exceeds the principal amount of related asset-backed securities), (ii) segregated cash reserve funds, (iii) subordinated securities, and (iv) excess spread (when interest collections on the securitized assets exceed the related fees and expenses, including interest payments on the related asset-backed securities). Payment enhancement includes interest rate swaps and other hedging arrangements, liquidity facilities, and certain cash deposits.

We retain interests in our securitization transactions, including in the form of subordinated securities issued by the SPE, rights to cash held for the benefit of the securitization investors, and residual interests. Residual interests represent the right to receive collections on the securitized assets in excess of amounts needed to pay securitization investors and to pay other transaction participants and expenses. We retain credit risk in securitization transactions, including the most subordinated interests in the securitized assets, which are structured to absorb expected credit losses on the securitized assets before any losses would be experienced by investors. Based on past experience, we expect that any losses in the pool of securitized assets would likely be limited to our retained interests. Our retention of credit risk is legally required in certain jurisdictions, including the United States, to be at least 5% of the credit risk of the securitized assets and is typically required to be retained for at least two years.

Our Continuing Obligations

We are engaged as servicer to service the securitized assets and securitization transactions. Our servicing duties include collecting payments on the securitized assets, preparing monthly investor reports on the performance of the securitized assets and the securitization transaction, and facilitating payments to securitization investors. While servicing securitized assets, we apply the same servicing policies and procedures that we apply to our owned assets and maintain our normal relationship with our financing customers.

We generally have no obligation to repurchase or replace any securitized asset that becomes delinquent in payment or otherwise is in default. As the seller and servicer of the securitized assets and as the administrator of the securitization SPE, we are obligated to provide certain kinds of support to our securitization transactions, which are customary in the securitization industry. These obligations include performing administrative duties for the SPE and some transaction parties, indemnifications, repurchase obligations on assets that do not meet representations or warranties on eligibility criteria or that have been materially modified, the mandatory sale of additional assets in some revolving transactions, the payment or reimbursement of transaction party expenses, and, in some cases, servicer advances of certain amounts. Securitization investors have no recourse to us or our other assets other than as provided above and have no right to require us to repurchase the asset-backed securities. We generally have no obligation to provide liquidity or contribute cash or additional assets to our SPEs either due to the performance of the securitized assets or the credit rating of our short-term or long-term debt. We do not guarantee any asset-backed securities. We may choose to support the performance of certain securitization transactions, however, by increasing cash reserves.

For certain public offerings of asset-backed securities, we have obligations to report certain information, including asset-level data on the securitized assets, ensure the engagement of an independent asset representations reviewer, cooperate and provide access to information necessary for an asset representations review, and participate in dispute resolution proceedings for unresolved asset repurchase requests.

Structural Features Under Certain Securitization Programs

The following securitization programs contain structural features that could prevent us from using these sources of funding in certain circumstances:

- *Revolving Retail Program*. Asset-backed securities under the FordREV program may be supported by a combination of a revolving pool of United States retail installment sale contracts and cash collateral. Cash generated by the receivables during the revolving period in excess of what is needed to pay certain expenses of the trust and interest on the notes may be used to purchase additional receivables provided that certain tests are met after the purchase. The revolving period ends upon the occurrence of certain events that include if credit losses or delinquencies on the pool of assets supporting the securities exceed specified levels, if certain segregated account balances are below their required levels, or if interest is not paid on the securities.

- *Retail Committed Facilities*. If credit losses or delinquencies on a pool of assets held by a facility exceed specified levels, or if the level of over-collateralization or other credit enhancement for that pool decreases below a specified level, we will not have the right to sell additional pools of assets to that facility.

- *Lease Facility Program*. If delinquencies in our portfolio of retail operating lease contracts exceed specified levels, we will be unable to obtain additional funding from the securitization of retail lease contracts through our committed lease facilities.

- *Wholesale Program*. If the payment rates on wholesale receivables in the securitization trust are lower than specified levels or if there are significant dealer defaults, we will be unable to obtain additional funding and any existing funding would begin to amortize.

On-Balance Sheet Arrangements

Our securitization transactions involve sales to consolidated entities or we maintain control over the assets and, therefore, the securitized assets and related debt remain on our balance sheets. The securitized assets are available only for payment of the debt issued by, and other obligations of, the securitization entities that are parties to those securitization transactions. They are not available to pay our other obligations or the claims of our other creditors. We hold the right to receive the excess cash flows not needed to pay the debt issued by, and other obligations of, the securitization entities that are parties to those securitization transactions. This debt is the obligation of our consolidated securitization entities and not the obligation of Ford Credit or our other subsidiaries. For additional information on our on-balance sheet arrangements, see Note 6 of our Notes to the Financial Statements.

The following table shows worldwide cash and cash equivalents, receivables, and related debt by segment and product for our on-balance sheet securitization transactions at December 31 (in billions):

	2023			2024		
	Cash and Cash Equivalents	**Finance Receivables and Net Investment in Operating Leases (a)**	**Related Debt (b)**	**Cash and Cash Equivalents**	**Finance Receivables and Net Investment in Operating Leases (a)**	**Related Debt (b)**
Finance Receivables						
United States and Canada Segment						
Retail financing	$ 1.7	$ 38.9	$ 34.7	$ 1.9	$ 41.1	$ 37.4
Wholesale financing	0.2	18.3	11.1	0.2	21.3	10.2
Total United States and Canada Segment	1.9	57.2	45.8	2.1	62.4	47.6
Europe Segment						
Retail financing	0.3	6.1	3.1	0.3	5.9	3.0
Wholesale financing	—	2.2	0.7	0.1	2.3	0.6
Total Europe Segment	0.3	8.3	3.8	0.4	8.2	3.6
All Other Segment						
Retail financing	—	1.0	0.7	—	0.6	0.5
Wholesale financing	—	0.8	0.2	—	0.8	0.2
Total All Other Segment	—	1.8	0.9	—	1.4	0.7
Total finance receivables	2.2	67.3	50.5	2.5	72.0	51.9
Net investment in operating leases	0.5	11.2	7.5	0.5	13.3	8.5
Total on-balance sheet arrangements	$ 2.7	$ 78.5	$ 58.0	$ 3.0	$ 85.3	$ 60.4

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(a) Finance receivables, before allowances for credit losses. Unearned interest supplements and residual support are excluded from securitization transactions.
(b) Includes unamortized discount and debt issuance costs.

Leverage

We use leverage, or the debt-to-equity ratio, to make various business decisions, including evaluating and establishing pricing for finance receivable and operating lease financing, and assessing our capital structure. We refer to our shareholder's interest as equity.

The following table shows the calculation of our financial statement leverage (in billions):

Leverage Calculation	December 31, 2022	December 31, 2023	December 31, 2024
Debt	$ 119.0	$ 129.3	$ 137.9
Equity	$ 11.9	$ 13.4	$ 13.8
Financial statement leverage (to 1)	10.0	9.7	10.0

We plan our financial statement leverage by considering market conditions and the risk characteristics of our business. At December 31, 2024, our financial statement leverage was 10.0:1. We target financial statement leverage in the range of 9:1 to 10:1.

During the fourth quarter and full year 2024, we paid $175 million and $500 million, respectively, in cash distributions to our parent.

Critical Accounting Estimates

We consider an accounting estimate to be critical if (1) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made; and (2) changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations.

The accounting estimates that are most important to our business involve:

- Allowance for credit losses; and
- Accumulated depreciation on vehicles subject to operating leases.

Management has discussed the development and selection of these critical accounting estimates with Ford's and our audit committees.

Allowance for Credit Losses

The allowance for credit losses represents our estimate of the expected lifetime credit losses inherent in finance receivables as of the balance sheet date. The adequacy of the allowance for credit losses is assessed quarterly and the assumptions and models used in establishing the allowance are evaluated regularly. Because credit losses can vary substantially over time, estimating credit losses requires a number of assumptions about matters that are uncertain. Changes in our assumptions affect *Provision for credit losses* on our consolidated income statements and the allowance for credit losses contained within *Total finance receivables, net* on our consolidated balance sheets. For additional information regarding our allowance for credit losses, see Note 4 of our Notes to the Financial Statements.

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

Assumptions Used. Our allowance for credit losses is based on our assumptions regarding:

- *Probability of default.* The expected probability of payment and time to default which include assumptions about macroeconomic factors and recent performance.
- *Loss given default*. The percentage of the expected balance due at default that is not recoverable. The loss given default takes into account the expected collateral value and future recoveries.

Macroeconomic factors used in our models are country specific and include variables such as unemployment rates, personal bankruptcy filings, housing prices, and gross domestic product.

Sensitivity Analysis. Changes in the probability of default and loss given default assumptions would affect the allowance for credit losses. The effect of the indicated increase/decrease in the assumptions for our United States Ford and Lincoln retail financing portfolio at December 31, 2024 is as follows (in millions):

Assumption	Basis Point Change	Increase/ (Decrease) in Allowance for Credit Losses
Probability of default (lifetime)	+ / - 100	$250/$(250)
Loss given default	+ / - 100	15/(15)

Accumulated Depreciation on Vehicles Subject to Operating Leases

Accumulated depreciation on vehicles subject to operating leases reduces the value of the leased vehicles in our operating lease portfolio from their original acquisition value to their expected residual value at the end of the lease term.

We monitor residual values each month, and we review the adequacy of our accumulated depreciation on a quarterly basis. If we believe that the expected residual values for our vehicles have changed, we revise depreciation to ensure that our net investment in operating leases (equal to our acquisition value of the vehicles less accumulated depreciation) will be adjusted to reflect our revised estimate of the expected residual value at the end of the lease term. Adjustments to depreciation expense would result in a change in the depreciation rates of the vehicles subject to operating leases and are recorded prospectively on a straight-line basis.

Generally, lease customers have the option to buy the leased vehicle at the end of the lease or to return the vehicle to the dealer. For additional information on our residual risk on operating leases, refer to the "Residual Risk" section.

Nature of Estimates Required. Each operating lease in our portfolio represents a vehicle we own that has been leased to a customer. At the time we purchase a lease, we establish an expected residual value for the vehicle. We estimate the expected residual value by evaluating recent auction values, return volumes for our leased vehicles, industrywide used vehicle prices, marketing incentive plans, and vehicle quality data, and benchmark to third-party data depending on availability. Similar factors are considered in the third-party data we use to revise our estimate of the expected residual value during the lease term.

Assumptions Used. Our accumulated depreciation on vehicles subject to operating leases is based on our assumptions regarding:

- *Auction value.* Our projection of the market value of the vehicles when sold at the end of the lease; and
- *Return volume.* Our projection of the number of vehicles that will be returned at lease end.

See Note 5 of our Notes to the Financial Statements for more information regarding accumulated depreciation on vehicles subject to operating leases.

Sensitivity Analysis. For returned vehicles, we face a risk that the amount we obtain from the vehicle sold at auction will be less than our estimate of the expected residual value for the vehicle. The impact of the change in assumptions on future auction values and return volumes would increase or decrease accumulated supplemental depreciation and depreciation expense over the remaining terms of the operating leases; however, the impact may be tempered or exacerbated based on future auction values in relation to the purchase price specified in the lease contract. A change in the assumption for an auction value will impact our estimate of accumulated supplemental depreciation if the future auction value is lower than the purchase price specified in the lease contract. The effect of the indicated increase/ decrease in the assumptions for our United States Ford and Lincoln brand operating lease portfolio at December 31, 2024 is as follows (in millions):

Assumption	Basis Point Change	Increase/ (Decrease) in Projected Lifetime Depreciation
Future auction values	+ / - 100	$(50)/$50
Return volumes	+ / - 100	5/(5)

Adjustments to the amount of accumulated supplemental depreciation on operating leases would be reflected on our balance sheets as *Net investment in operating leases* and on the income statements in *Depreciation on vehicles subject to operating leases.*

Accounting Standards Issued But Not Yet Adopted

For a discussion of recent accounting standards, see Note 2 of our Notes to the Financial Statements.

Outlook

We expect full year 2025 EBT to be about $2.0 billion.

Cautionary Note on Forward-Looking Statements

Statements included or incorporated by reference herein may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on expectations, forecasts, and assumptions by our management and involve a number of risks, uncertainties, and other factors that could cause actual results to differ materially from those stated, including, without limitation:

- Ford's long-term success depends on delivering the Ford+ plan, including improving cost and competitiveness;
- Ford's vehicles could be affected by defects that result in recall campaigns, increased warranty costs, or delays in new model launches, and the time it takes to improve the quality of Ford's vehicles and services and reduce the costs associated therewith could continue to have an adverse effect on Ford's business;
- Ford is highly dependent on its suppliers to deliver components in accordance with Ford's production schedule and specifications, and a shortage of or inability to timely acquire key components or raw materials, can disrupt Ford's production of vehicles;
- Ford's production, as well as Ford's suppliers' production, and/or the ability to deliver products to consumers could be disrupted by labor issues, public health issues, natural or man-made disasters, adverse effects of climate change, financial distress, production difficulties, capacity limitations, or other factors;
- Ford may not realize the anticipated benefits of existing or pending strategic alliances, joint ventures, acquisitions, divestitures, or business strategies or the benefits may take longer than expected to materialize;
- Ford may not realize the anticipated benefits of restructuring actions and such actions may cause Ford to incur significant charges, disrupt its operations, or harm its reputation;
- Failure to develop and deploy secure digital services that appeal to customers and grow Ford's subscription rates could have a negative impact on Ford's business;
- Ford's ability to maintain a competitive cost structure could be affected by labor or other constraints;
- Ford's ability to attract, develop, grow, support, and reward talent is critical to its success and competitiveness;
- Operational information systems, security systems, vehicles, and services could be affected by cybersecurity incidents, ransomware attacks, and other disruptions and impact Ford, Ford Credit, their suppliers and dealers;
- To facilitate access to the raw materials and other components necessary for the production of electric vehicles, Ford has entered into and may, in the future, enter into multi-year commitments to raw material and other suppliers that subject Ford to risks associated with lower future demand for such items as well as costs that fluctuate and are difficult to accurately forecast;
- With a global footprint and supply chain, Ford's results and operations could be adversely affected by economic or geopolitical developments, including protectionist trade policies such as tariffs, or other events;
- Ford's new and existing products and digital, software, and physical services are subject to market acceptance and face significant competition from existing and new entrants in the automotive and digital and software services industries, and Ford's reputation may be harmed based on positions it takes or if it is unable to achieve the initiatives it has announced;
- Ford may face increased price competition for its products and services, including pricing pressure resulting from industry excess capacity, currency fluctuations, competitive actions, or economic or other factors, particularly for electric vehicles;
- Inflationary pressure and fluctuations in commodity and energy prices, foreign currency exchange rates, interest rates, and market value of Ford or Ford Credit's investments, including marketable securities, can have a significant effect on results;
- Ford's results are dependent on sales of larger, more profitable vehicles, particularly in the United States;
- Industry sales volume can be volatile and could decline if there is a financial crisis, recession, public health emergency, or significant geopolitical event;
- The impact of government incentives on Ford's business could be significant, and Ford's receipt of government incentives could be subject to reduction, termination, or clawback;
- Ford and Ford Credit's access to debt, securitization, or derivative markets around the world at competitive rates or in sufficient amounts could be affected by credit rating downgrades, market volatility, market disruption, regulatory requirements, asset portfolios, or other factors;
- Ford Credit could experience higher-than-expected credit losses, lower-than-anticipated residual values, or higher-than-expected return volumes for leased vehicles;
- Economic and demographic experience for pension and OPEB plans (e.g., discount rates or investment returns) could be worse than Ford has assumed;
- Pension and other postretirement liabilities could adversely affect Ford's liquidity and financial condition;
- Ford and Ford Credit could experience unusual or significant litigation, governmental investigations, or adverse publicity arising out of alleged defects in products, services, perceived environmental impacts, or otherwise;
- Ford may need to substantially modify its product plans and facilities to comply with safety, emissions, fuel economy, autonomous driving technology, environmental, and other regulations;
- Ford and Ford Credit could be affected by the continued development of more stringent privacy, data use, data protection, data access, and artificial intelligence laws and regulations as well as consumers' heightened expectations to safeguard their personal information; and
- Ford Credit could be subject to new or increased credit regulations, consumer protection regulations, or other regulations.

We cannot be certain that any expectation, forecast, or assumption made in preparing forward-looking statements will prove accurate, or that any projection will be realized. It is to be expected that there may be differences between projected and actual results. Our forward-looking statements speak only as of the date of their initial issuance, and we do not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events, or otherwise. For additional discussion, see "Item 1A. Risk Factors" above.

ITEM 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

Overview

We are exposed to a variety of risks in the normal course of our business. Our financial condition depends on the extent to which we effectively identify, assess, monitor, and manage these risks. The principal types of risk to our business include:

- *Market risk* – the possibility that changes in interest and currency exchange rates will adversely affect our cash flow and economic value;
- *Counterparty risk* – the possibility that a counterparty may default on a derivative contract or investment;
- *Credit risk* – the possibility of loss from a customer's failure to make payments according to contract terms;
- *Residual risk* – the possibility that the actual proceeds we receive at lease termination will be lower than our projections or return volumes will be higher than our projections;
- *Liquidity risk* – the possibility that we may be unable to meet all of our current and future obligations in a timely manner; and
- *Operating risk* – the possibility of: errors relating to transaction processing and systems; actions that could result in compliance deficiencies with regulatory standards or contractual obligations; and fraud by our employees or third parties.

We manage each of these types of risk in the context of its contribution to our overall global risk. We make business decisions on a risk-adjusted basis and price our services consistent with these risks.

Credit, residual, and liquidity risks are discussed in Item 7. A discussion of market risk (including currency and interest rate risk), counterparty risk, and operating risk follows.

Market Risk

Given the unpredictability of financial markets, we seek to reduce volatility in our cash flow and economic value from changes in interest rates and currency exchange rates. We use various financial instruments, commonly referred to as derivatives, to manage market risks. We do not engage in any trading, market-making, or other speculative activities in the derivative markets.

Our strategies to manage market risks are approved by our Asset-Liability Committee ("ALCO") and the Ford Global Risk Management Committee ("GRMC"). The ALCO is co-chaired by our Chief Financial Officer and the Treasurer of Ford. The GRMC is chaired by the Chief Financial Officer of Ford.

The Ford Treasurer's Office is responsible for the execution of our market risk management strategies. These strategies are governed by written policies and procedures. Separation of duties is maintained between the strategy and approval of derivatives trades, the execution of derivatives trades, and the settlement of cash flows. Regular audits are conducted to ensure that appropriate controls are in place and that these controls are effective. In addition, the ALCO, GRMC, Ford's Audit Committee, and Ford Credit's Board of Directors review our market risk exposures and use of derivatives to manage these exposures.