UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☑ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
**For the fiscal year ended December 31, 2018**

or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ____________________ to ____________________
**Commission file number 1-6368**

# Ford Motor Credit Company LLC

*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **Delaware** | **38-1612444** |
| *(State of organization)* | *(I.R.S. employer identification no.)* |
| **One American Road, Dearborn, Michigan** | **48126** |
| *(Address of principal executive offices)* | *(Zip code)* |

**(313) 322-3000**
*(Registrant's telephone number, including area code)*

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class | Name of each Exchange on which registered |
|---|---|
| 3.700% Notes due March 11, 2019 | New York Stock Exchange |
| 3.588% Notes due June 2, 2020 | New York Stock Exchange |
| 0.623% Notes due June 28, 2023* | New York Stock Exchange |
| 1.355% Notes due February 7, 2025* | New York Stock Exchange |
| 3.350% Notes due Nine Months or More from the Date of Issue due August 20, 2026 | New York Stock Exchange |
| Floating Rate Notes due June 14, 2019* | New York Stock Exchange |
| Floating Rate Notes due December 12, 2019* | New York Stock Exchange |
| Floating Rate Notes due December 16, 2019* | New York Stock Exchange |
| Floating Rate Notes due May 14, 2021* | New York Stock Exchange |
| Floating Rate Notes due December 1, 2021* | New York Stock Exchange |
| Floating Rate Notes due December 7, 2022* | New York Stock Exchange |
| Floating Rate Notes due November 15, 2023* | New York Stock Exchange |
| Floating Rate Notes due December 1, 2024* | New York Stock Exchange |

*Issued under Euro Medium Term Notes due Nine Months or More from The Date of Issue Program

**Securities registered pursuant to Section 12(g) of the Act:** None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
☑ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
☐ Yes ☑ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☑ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☑ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☑ Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
☐ Yes ☑ No

All of the limited liability company interests in the registrant ("Shares") are held by an affiliate of the registrant. None of the Shares are publicly traded.

**REDUCED DISCLOSURE FORMAT**

**The registrant meets the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and is therefore filing this Form with the reduced disclosure format.**

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Exhibit Index begins on page 63

**FORD MOTOR CREDIT COMPANY LLC**
**ANNUAL REPORT ON FORM 10-K**
**For the Year Ended December 31, 2018**

# PART I

## ITEM 1. *Business.*

### Overview

Ford Motor Credit Company LLC was incorporated in Delaware in 1959 and converted to a limited liability company in 2007. We are an indirect, wholly owned subsidiary of Ford Motor Company ("Ford"). Our principal executive offices are located at One American Road, Dearborn, Michigan 48126, and our telephone number is (313) 322-3000.

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K filed with the Securities and Exchange Commission ("SEC") pursuant to Section 13(a) or 15(d) of the Securities Exchange Act are available free of charge through our website located at *www.fordcredit.com/investor-center*. These reports can also be found on the SEC's website located at *www.sec.gov*.

Our website and its content are not deemed to be incorporated by reference into this Annual Report on Form 10-K for the year ended December 31, 2018 ("2018 Form 10-K Report" or "Report") nor filed with the SEC.

*Products and Services.* We offer a wide variety of automotive financing products to and through automotive dealers throughout the world. The predominant share of our business consists of financing Ford and Lincoln vehicles and supporting the dealers of those brands. We earn our revenue primarily from:

- Payments made under retail installment sale and lease contracts that we originate and purchase;
- Interest rate supplements and other support payments from Ford and affiliated companies; and
- Payments made under dealer financing programs.

As a result of our financing activities, we have a large portfolio of consumer and non-consumer finance receivables and operating leases.

Finance receivables and operating leases in the consumer portfolio include products offered to individuals and businesses that finance the acquisition of Ford and Lincoln vehicles from dealers for personal and commercial use. Retail financing includes retail installment sale contracts for new and used vehicles and direct financing leases for new vehicles to retail and commercial customers, including leasing companies, government entities, daily rental companies, and fleet customers.

Finance receivables in the non-consumer portfolio include products offered to automotive dealers and receivables related to Ford and its affiliates. We make wholesale loans to dealers to finance the purchase of vehicle inventory, also known as floorplan financing, as well as loans to dealers to finance working capital and improvements to dealership facilities, finance the purchase of dealership real estate, and finance other dealer vehicle programs. We also purchase receivables from Ford and its affiliates, primarily related to the sale of parts and accessories to dealers and certain used vehicles from daily rental fleet companies. In addition, we provide financing to Ford for vehicles that Ford leases to its employees.

We also service the finance receivables and leases we originate and purchase, make loans to Ford affiliates, and provide insurance services related to our financing programs.

*Geographic Scope of Operations and Segment Information.* We conduct our financing operations directly and indirectly through our subsidiaries and affiliates. We offer substantially similar products and services throughout many different regions, subject to local legal restrictions and market conditions. We segment our business based on geographic regions: the Americas, Europe, and Asia Pacific. 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, are reflected in Unallocated Other.

For additional financial information regarding our operations by business segment and operations by geographic region, see Note 17 of our Notes to the Financial Statements.

*Americas Segment*

Our Americas segment includes operations in the United States, Canada, Mexico, Brazil, and Argentina. This segment represented 78% and 80% of total managed receivables at year-end 2017 and 2018, respectively. Our United States operations accounted for 85% and 87% of Americas segment total managed receivables at year-end 2017 and 2018, respectively, and our Canadian operations accounted for 13% and 12% of Americas segment total managed receivables at year-end 2017 and 2018, respectively. Managed receivables equal net finance receivables and net investment in operating leases, excluding unearned interest supplements and residual support, allowance for credit losses, and other (primarily accumulated supplemental depreciation). For additional information on how we review our business performance, including on a managed basis, refer to the "Overview" section of Item 7. Managed receivables are discussed further in the "Financial Condition" section of Item 7.

Under the Ford Credit and Lincoln Automotive Financial Services brand names, we provide financing services to and through dealers of Ford and Lincoln vehicles. Operations in some markets may also include joint ventures with local financial institutions and other third parties. In addition, other private label operations and alternative business arrangements exist in some markets.

*Europe Segment*

Our Europe segment includes operations in the European region and a joint venture in South Africa. This segment represented 17% of total managed receivables at both year-end 2017 and 2018. Our operations in the European region are managed primarily through a United Kingdom-based subsidiary, FCE Bank plc ("FCE"), which operates in the United Kingdom and has branches in 11 other European countries. On July 1, 2018, FCE established an operating subsidiary in Germany, Ford Bank GmbH ("Ford Bank"). FCE also has operating subsidiaries in Switzerland, the Czech Republic, and Hungary that provide a variety of retail and dealer financing. The United Kingdom and Germany are our largest markets in Europe, representing 59% and 58% of Europe segment managed receivables at year-end 2017 and 2018, respectively. Customers and dealers in Italy, France, and Spain were 23% and 24% of Europe segment managed receivables at year-end 2017 and 2018, respectively. FCE, through its Worldwide Trade Financing ("WWTF") division, provides financing to distributors and importers in about 70 countries where Ford has no national sales company presence. Our operations include joint ventures with local financial institutions and other third parties in various locations. In addition, other private label operations and alternative business arrangements exist in some markets.

*Asia Pacific Segment*

Our Asia Pacific segment includes operations in China and India. This segment represented 5% and 3% of total managed receivables at year-end 2017 and 2018, respectively. China operations accounted for 97% and 96% of Asia Pacific segment total managed receivables at year-end 2017 and 2018, respectively. In addition, other private label operations and alternative business arrangements exist in some markets.

*Dependence on Ford*

The predominant share of our business consists of financing Ford and Lincoln vehicles and supporting Ford and Lincoln dealers. Any extended reduction or suspension of Ford's production or sale of vehicles due to a decline in consumer demand, work stoppage, governmental action, negative publicity or other event, or significant changes to marketing programs sponsored by Ford would have an adverse effect on our business. Additional information about Ford's business, operations, production, sales, and risks can be found in Ford's Annual Report on Form 10-K for the year ended December 31, 2018 ("Ford's 2018 Form 10-K Report"), filed separately with the SEC.

Ford has sponsored special financing programs available only through us. Under these programs, Ford makes interest supplements or other support payments to us. These programs increase our financing volume and share of financing sales and operating leases of Ford and Lincoln vehicles. Similar programs may be offered in the future. For additional information regarding interest supplements and other support costs received from affiliated companies, see Notes 4 and 5 of our Notes to the Financial Statements.

*Competition*

The automotive financing business is highly competitive, due in part to web-based credit aggregation systems that permit dealers to send, through standardized systems, retail credit applications to multiple finance sources to evaluate financing options offered by these finance sources. Our principal competitors are:

- Banks;
- Independent finance companies;
- Credit unions;
- Leasing companies; and
- Other automobile manufacturers' affiliated finance companies.

We compete mainly on the basis of service and financing rate programs, including those sponsored by Ford. A key foundation of our service is providing broad and consistent purchasing policies for retail installment sale and lease contracts, and consistent support for dealer financing requirements across economic cycles. These policies have helped us build strong relationships with Ford's dealer network that enhance our competitiveness. Our ability to provide competitive financing rates depends on effectively and efficiently originating, purchasing, and servicing our receivables, and efficiently accessing the capital markets. We routinely monitor the capital markets and develop funding plans to optimize our competitive position. Ford-sponsored special financing programs available only through us give us a competitive advantage in providing financing to Ford dealers and their customers.

*Seasonal Variations*

As a finance company, we own and manage a large portfolio of receivables that are generated throughout the year and are collected over a number of years, primarily in fixed monthly payments. As a result, our overall financing revenues do not exhibit seasonal variations.

**Consumer Financing**

*Overview and Purchasing Process*

We provide financing services to customers for personal and commercial use through automotive dealers that have established relationships with us. Our primary business consists of originating and purchasing retail installment sale and lease contracts for new and used vehicles from Ford and Lincoln dealers. We report in our financial statements the receivables from customers under installment sale contracts and certain leases with fleet customers as finance receivables. We report in our financial statements most of our retail leases as net investment in operating leases with the capitalized cost of the vehicles recorded as depreciable assets.

In general, we purchase from dealers retail installment sale contracts and lease contracts that meet our purchase standards. These contracts primarily relate to the purchase or lease of new vehicles, but some are for used vehicles. Dealers typically submit customer applications electronically. We automatically obtain information on the applicant including a credit bureau score, if available. We use a proprietary scoring system that measures credit quality using information in 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 creditworthiness focusing on payment, affordability, applicant credit history, and stability as key considerations. Purchase decisions are made within a framework of Ford Credit's purchase quality and risk factor guidelines. Credit applications are typically evaluated by our electronic decisioning process, which may approve or reject applications.

*Retail Financing*

The amount we pay for a retail installment sale contract is based on a negotiated vehicle purchase price agreed to between the dealer and the retail customer, less vehicle trade-in allowance or down payment from the customer and special marketing cash payments offered by Ford Credit and Ford, plus any additional products, such as insurance and extended service plans, that are included in the contract. The net purchase price owed by the customer typically is paid over a specified number of months with interest at a fixed rate negotiated between the dealer and the retail customer. The dealer may retain a limited portion of the finance charge.

We offer a variety of retail installment sale financing products. The average original term of our retail installment sale contracts in the United States was 65 months for contracts purchased in both 2017 and 2018. A small portion of our retail installment sale contracts have non-uniform payment periods and payment amounts to accommodate special cash flow situations. We also offer a retail balloon product in Europe under which the retail customer may finance a vehicle with an installment sale contract with a series of monthly payments followed by paying the amount remaining in a single balloon payment. The customer can satisfy the balloon payment obligation by payment in full of the amount owed, by refinancing the amount owed, or by returning the vehicle to us and paying any contractually agreed additional charges for excess mileage or excess wear and use. Generally, we sell vehicles returned to us to Ford dealers and non-Ford dealers through auctions.

In most markets, we hold a security interest in the vehicles purchased through retail installment sale contracts. This security interest provides us certain rights and protections. As a result, if our collection efforts fail to bring a delinquent customer's payments current, we generally can repossess the customer's vehicle, after satisfying local legal requirements, and sell it at auction. The customer typically remains liable for any deficiency between net auction proceeds and the defaulted contract obligations, including any repossession-related expenses. We generally require retail customers to carry fire, theft, and collision insurance on financed vehicles.

We offer vehicle-financing programs to retail and commercial customers including leasing companies, government entities, daily rental companies, and fleet customers. These financings include primarily lease plans for terms of 24 to 60 months. We hold a security interest in financed vehicles in almost all instances. At the end of the finance term, a lease customer may be required to pay any shortfall between the fair market value and the specified end of term value of the vehicle. If the fair market value of the vehicle at the end of the finance term exceeds the specified end of term value, the lease customer may be paid the excess amount. These financings are included in our consumer segment and reported as retail financing.

*Net Investment in Operating Leases*

We offer leasing plans to retail customers through our dealers. Our highest volume retail-leasing plan is called Red Carpet Lease, which is offered in the United States and Canada through dealers of Ford and Lincoln brands. Under these plans, dealers originate the leases and offer them to us for purchase. Upon our purchase of a lease, we take ownership of the lease and title to the leased vehicle from the dealer. After we purchase a lease from a dealer, the dealer generally has no further obligation to us in connection with the lease. The customer is responsible for properly maintaining the vehicle and is obligated to pay for excess wear and use as well as excess mileage, if any. At the end of the lease, the customer has the option to purchase the vehicle for the price specified in the lease contract, or return the vehicle to the dealer. If the customer returns the vehicle to the dealer, the dealer may buy the vehicle from us or return it to us. We generally sell vehicles returned to us to Ford and non-Ford dealers through auctions.

The amount we pay to a dealer for a retail lease, also called the acquisition cost, is based on the negotiated vehicle price agreed to between the dealer and the retail customer, less any vehicle trade-in allowance or down payment from the customer and special marketing cash payments offered by Ford Credit and Ford, plus any additional products, such as insurance and extended service plans, that are included in the contract. The customer makes monthly lease payments based on the purchase price less the contractual residual value of the vehicle, plus lease charges. Some of our lease programs, such as our Red Carpet Lease Advance Payment Plan, provide certain pricing advantages to customers who make all or some monthly payments at lease inception or purchase refundable higher mileage allowances. We require lease customers to carry fire, theft, liability, and collision insurance on leased vehicles. In the case of a contract default and repossession, the customer typically remains liable for any deficiency between net auction proceeds and the defaulted contract obligations, including any repossession-related expenses.

In the United States, operating lease terms for new vehicles range primarily from 24 to 39 months. In both 2017 and 2018, the average original lease term for contracts purchased was 35 months.

## Non-Consumer Financing

*Overview*

We extend credit to franchised dealers selling Ford and Lincoln vehicles primarily in the form of approved lines of credit to purchase new and used vehicles. Each lending request is evaluated, taking into consideration the borrower's financial condition, supporting security, and numerous other financial and qualitative factors. Generally, receivables are secured by the related vehicle or the related property and may also be secured by other dealer assets. Asset verification processes are in place and include physical audits of vehicle inventories with increased audit frequency for higher-risk dealers.

*Dealer Financing*

*Wholesale Financing.* We offer a wholesale financing program for qualifying dealers to finance new and used vehicles held in inventory (also known as floorplan financing). We generally finance the vehicle's wholesale invoice price for new vehicles and up to 100% of the dealer's purchase price for used vehicles. Dealers generally pay a floating interest rate on wholesale loans. In the United States, the average new wholesale receivable, excluding the time the vehicle was in transit from the assembly plant to the dealership, was outstanding for 71 days in 2017 compared with 68 days in 2018. Our wholesale financing program includes financing of large multi-brand dealer groups.

When a dealer uses our wholesale financing program to purchase vehicles, we obtain a security interest in the vehicles and, in many instances, other assets of the dealer. In the United States and Canada, our wholly owned subsidiary, The American Road Insurance Company ("TARIC"), generally provides insurance for vehicle damage and theft of vehicles held in dealer inventory that are financed by us.

*Dealer Loans.* We make loans to dealers to finance the purchase of dealership real estate, to make improvements to dealership facilities, and to provide working capital. These loans are typically secured by mortgages on dealership real estate and/or by security interests in other dealership assets. In addition, these loans are generally supported by personal guarantees from the individual owners of the dealership.

*Other Dealer Financing.* We also provide financing to qualified dealers for vehicles to be utilized for service replacement and retail rental use. In addition, we provide financing to qualified daily rental companies for new and used vehicles used in their operations.

*Other Financing*

We also purchase receivables from Ford and its affiliates, primarily related to the sale of parts and accessories to dealers and certain used vehicles from daily rental fleet companies. In addition, we provide financing to Ford for vehicles that Ford leases to its employees. These receivables are excluded from our credit quality reporting since the performance of this group of receivables is generally guaranteed by Ford.

## Marketing and Special Programs

We actively market our financing products and services to automotive dealers and customers. We demonstrate to dealers the value of a business relationship with us through personal sales contacts, targeted advertisements in trade publications, and participation in dealer-focused conventions and organizations. Our marketing strategy is based on our belief that we can better assist dealers in achieving their sales, financial, and customer satisfaction goals by being a reliable finance source with knowledgeable automotive and financial professionals offering personal attention and interaction. We demonstrate our commitment to dealer relationships with a variety of materials, measurements, and analyses showing the advantages of a full range of automotive financing products that allows consistent and predictable single source financing. We promote increased dealer transactions through incentives, bonuses, contests, and selected program and rate adjustments.

We promote our retail financing products primarily through pre-approved credit offers to prospective customers, point-of-sale information, and ongoing communications with existing customers. Our communications to these customers promote the advantages of our financing products, the availability of special plans and programs, and the benefits of affiliated products, such as extended warranties, service plans, insurance coverage, gap protection, and excess wear and use waivers. We also emphasize the quality of our customer service and the ease of making payments and transacting business with us. For example, through our web site located at *www.fordcredit.com* or via our mobile application a customer can make inquiries, review an account balance, examine current incentives, schedule an electronic payment, or qualify for a pre-approved credit offer.

We also market our non-consumer financing services with a specialized group of employees who make direct sales calls on dealers and, often at the request of such dealers, on potential high-volume commercial customers. This group also uses various materials to explain our flexible programs and services specifically directed at the needs of commercial and fleet vehicle customers.

**Servicing**

*Consumer Financing*

After we purchase retail installment sale contracts and leases from dealers and other customers, we manage the contracts during their contract terms. This management process is called servicing. We service the finance receivables and leases we originate and purchase. Our servicing duties include the following:

- Applying monthly payments from customers;
- Maintaining a security interest in the financed vehicle;
- Providing billing statements to customers;
- Responding to customer inquiries;
- Releasing our security interest on paid-off finance contracts;
- Contacting delinquent customers for payment;
- Arranging for the repossession of vehicles; and
- Selling repossessed and returned vehicles.

*Customer Payment Operations.* Customers may make payments by mailing checks to a bank for deposit in a lockbox account, through electronic payment services, a direct debit program, or a telephonic payment system.

*Collections.* We design our collection strategies and procedures to keep accounts current and to collect on delinquent accounts. We employ a combination of proprietary and non-proprietary tools to assess the probability and severity of default for all of our finance receivables and leases and implement our collection efforts based on our determination of the credit risk associated with each customer. As each customer develops a payment history, we use an internally developed behavioral scoring model to assist in determining the best collection strategies. Based on data from this scoring model, contracts are categorized by collection risk. Our centralized collection operations are supported by auto-dialing technology and proprietary collection and workflow operating systems. Through our auto-dialer program and our monitoring and call log systems, we target our efforts on contacting customers about missed payments and developing satisfactory solutions to bring accounts current.

*Supplier Operations.* We engage vendors to perform some of our servicing processes. These processes include depositing monthly payments from customers, monitoring the perfection of security interests in financed vehicles, imaging of contracts and electronic data file maintenance, generating retail and lease billing statements, providing telephonic payment systems for retail customers, handling of some inbound and outbound collections calls, and recovering deficiencies for selected accounts.

*Payment Extensions*. In our regular course of business we may offer payment extensions to customers. Each month 1% to 2% of our U.S. retail contracts outstanding are granted payment extensions. A payment extension allows the customer to extend the term of the contract, usually by paying a fee that is calculated in a manner specified by law. Before agreeing to a payment extension, the service representative reviews the customer's payment history and current financial situation and assesses the customer's desire and capacity to make future payments. The service representative decides whether the proposed payment extension complies with our policies and guidelines. Payment extensions are reviewed regularly by Ford Credit's servicing managers.

*Repossessions and Off-lease Vehicles.* We view repossession of a financed or leased vehicle as a final step that we undertake only after all other collection efforts have failed. Our United States and Canada systems also employ a web-based network of outside contractors who support the repossession process. In all of our markets we sell repossessed vehicles and apply the proceeds to the amount owed on the customer's account. We continue to attempt collection of any deficient amounts until the account is paid in full, we obtain mutually satisfactory payment arrangements with the debtor, or we determine that the account is uncollectible. Repossessed vehicles are reported in *Other assets* on our balance sheet at values that approximate expected net auction proceeds.

We manage the sale of returned leased vehicles and repossessed vehicles. We inspect and recondition the vehicle to maximize the net auction value of the vehicle. Returned leased vehicles are predominantly sold through an on-line auction, closed auctions in which only Ford and Lincoln dealers may participate, or at open auctions in which any licensed dealer can participate. Typically, repossessed vehicles are sold at open auctions.

*Non-Consumer Financing*

In the United States and Canada, we require dealers to submit monthly financial statements that we monitor for potential credit deterioration. We assign an evaluation rating to each dealer, which, among other things, determines the frequency of physical audits of vehicle inventory. We electronically audit vehicle inventory utilizing integrated systems allowing us to access information from Ford reported sales. We monitor dealer inventory financing payoffs daily to detect deviations from typical repayment patterns and take appropriate actions. If a dealer fails to make principal or interest payments when due, we will classify the dealer as "status" and may take one or more of the following actions: demand payment of all or a portion of the related receivables; suspend the dealer's credit lines; place Ford Credit employees or security personnel at the dealership; secure the dealer's inventory; require certified funds for all vehicles sold by the dealer; initiate legal actions to exercise rights under the floorplan financing agreement; or increase the dealer's floorplan interest rate. If a loss appears imminent, we will attempt to redistribute new vehicle inventory, liquidate all remaining collateral, enforce any third-party guarantees, and charge off any remaining amounts as uncollectible.

We also provide financing to fleet purchasers, leasing companies, daily rental companies, and other commercial customers. We generally review our exposure under these credit arrangements at least annually.

Outside of the United States and Canada, non-consumer financing is managed by the respective regional offices, executed within the local markets, and similar risk management principles are applied.

**Insurance**

We conduct insurance underwriting operations primarily through TARIC in the United States and Canada. TARIC offers a variety of products and services, including:

- Physical damage insurance coverage for Ford Credit financed vehicles at dealer locations;
- Physical damage insurance coverage for Ford and Lincoln vehicles in transit between final assembly plants and dealer locations;
- Contractual liability insurance on extended service contracts for Ford and its affiliates; and
- Commercial automobile and general liability insurance and surety bonds for Ford in the United States.

TARIC invests premiums and other revenue to fund future claims, and has established investment guidelines and strategies to reflect its risk tolerance, regulatory requirements, and rating agency considerations, among other factors. TARIC is rated by A.M. Best Company on its financial strength and issuer credit rating. Since 2012, TARIC's rating has been A (Excellent) for its financial strength and "a" on its issuer credit rating.

We also offer various Ford-branded insurance products throughout the world underwritten by non-affiliated insurance companies from which we receive fee income but the underwriting risk remains with the non-affiliated insurance companies. Premiums from our insurance business generated 1% of our total revenues in both 2017 and 2018.

## Employee Relations

We employed approximately 7,600 full-time employees worldwide at both year-end 2017 and 2018. Most employees are salaried and are not represented by a union. We consider employee relations to be satisfactory.

## Governmental Regulations

As a finance company, we are highly regulated by the governmental authorities in the locations where we operate.

*United States*

Within the United States, our operations are subject to regulation and supervision under various federal, state, and local laws.

*Federal Regulation.* We are subject to federal regulation, including the Truth-in-Lending Act, the Consumer Leasing Act, the Equal Credit Opportunity Act, and the Fair Credit Reporting Act. These laws require us to provide certain disclosures to prospective purchasers and lessees in consumer retail and lease financing transactions and prohibit discriminatory credit practices. The principal disclosures required under the Truth-in-Lending Act for retail financing transactions include the terms of repayment, the amount financed, the total finance charge, and the annual percentage rate. For retail lease transactions, under the Consumer Leasing Act, we are required to disclose the amount due at lease inception, the terms for payment, and information about lease charges, insurance, excess mileage, wear and use charges, and liability on early termination. The Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants and customers on a variety of factors, including race, color, sex, age, or marital status. Pursuant to the Equal Credit Opportunity Act, creditors are required to make certain disclosures regarding consumer rights and advise consumers whose credit applications are not approved of the reasons for being denied. In addition, any of the credit scoring systems we use during the application process or other processes must comply with the requirements for such systems under the Equal Credit Opportunity Act. The Fair Credit Reporting Act requires us to provide certain information to consumers whose credit applications are not approved on the basis of a consumer credit report obtained from a national credit bureau and sets forth requirements related to identity theft, privacy, and accuracy in credit reporting. In addition, under the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), it is unlawful for us to engage in any unfair, deceptive, or abusive act or practice. We are also subject to the Servicemembers Civil Relief Act that provides additional protections for certain customers in the military such as prohibiting us from charging interest in excess of 6% on transactions with those customers, limiting our ability to collect future payments from those lease customers who terminate their lease early, and limiting our use of self-help repossession of the vehicle for those customers. We are subject to other federal regulation, including the Gramm-Leach-Bliley Act, that requires us to maintain confidentiality and safeguard certain consumer data in our possession and to communicate periodically with consumers on privacy matters. In addition, the Consumer Financial Protection Bureau ("CFPB") has broad rule-making and enforcement authority for a wide range of consumer financial protection laws that regulate consumer finance businesses, such as Ford Credit's financing business. For additional discussion of the CFPB, see "Item 1A. Risk Factors"

We are also subject to regulation in our funding and securitization activities, including requirements under federal securities laws and specific rules and requirements for asset-backed securities. Derivative activities are regulated under the Commodities Exchange Act and Dodd-Frank Act. These regulations also impose operational and reporting requirements for these funding transactions.

*State Regulation - Licensing.* In most states, a consumer credit regulatory agency regulates and enforces laws relating to finance companies. Rules and regulations generally provide for licensing of finance companies, limitations on the amount, duration, and charges, including interest rates, that can be included in finance contracts, requirements as to the form and content of finance contracts and other documentation, and restrictions on collection practices and creditors' rights. We must renew these licenses periodically. In periods of high interest rates, rate limitations could have an adverse effect on our operations if we were unable to purchase retail installment sale contracts with finance charges that reflect our increased costs. In certain states, we are subject to periodic examination by state regulatory authorities.

*State Regulation - Repossessions.* To mitigate our credit losses, sometimes we repossess a financed or leased vehicle. Repossessions are subject to prescribed legal procedures, including peaceful repossession, one or more customer notifications, a prescribed waiting period prior to disposition of the repossessed vehicle, and return of personal items to the customer. Some states provide the customer with reinstatement rights that require us to return a repossessed vehicle to the customer in certain circumstances. Our ability to repossess and sell a repossessed vehicle is restricted if a customer declares bankruptcy.

*International*

In some countries outside the United States, some of our subsidiaries, including FCE and Ford Bank, are regulated and/or licensed banking institutions and are required, among other things, to maintain minimum capital and liquidity. FCE is authorized by the U.K. Prudential Regulation Authority ("PRA") and regulated by the U.K. Financial Conduct Authority ("FCA") and the PRA to carry on a range of regulated activities within the United Kingdom. Pursuant to the Capital Requirements Regulation and Directive, CRD IV, FCE operates through a branch and subsidiary network in 14 other European countries. Under FCE's banking license, consumer credit and leasing activities are also passported to the European branches. In many other locations where we operate, governmental authorities require us to obtain equivalent banking licenses to conduct our business.

*Regulatory Compliance Status*

Based on our compliance management processes and procedures, we believe that we maintain all material licenses and permits required for our current operations and are in material compliance with all laws and regulations applicable to us and our operations. Failure to satisfy those legal and regulatory requirements could have a material adverse effect on our operations, financial condition, reputation, and/or liquidity. Further, the adoption of new laws or regulations, or the revision of existing laws and regulations, could have a material adverse effect on our operations, financial condition, and/or liquidity.

We actively monitor proposed changes to relevant legal and regulatory requirements in order to maintain our compliance. Through our governmental relations efforts, we also attempt to participate in the legislative and administrative rule-making process on regulatory initiatives that impact finance companies. The cost of our ongoing compliance efforts has not had a material adverse effect on our operations, financial condition, or liquidity.

For additional information on new or increased credit regulations, consumer or data protection regulations, or other regulations, refer to "Item 1A. Risk Factors."

**Certain Agreements with Ford and Affiliates**

We and Ford are parties to an Amended and Restated Relationship Agreement (the "Relationship Agreement") relating to our long-standing business practices with Ford. A copy of the Relationship Agreement was filed as an exhibit to our Current Report on Form 8-K dated April 30, 2015, and is incorporated by reference herein as an exhibit. Pursuant to the Relationship Agreement, if our managed leverage for a calendar quarter were to be higher than 11.5 to 1 (as reported in our most recent Form 10-Q Report or Form 10-K Report), we can require Ford to make or cause to be made a capital contribution to us in an amount sufficient to have caused such managed leverage to have been 11.5 to 1. No capital contributions have been made to us pursuant to the Relationship Agreement.

In addition to the foregoing, the other principal terms of the Relationship Agreement include the following:

- Any extension of credit from us to Ford or any of Ford's automotive affiliates will be on arm's length terms and will be enforced by us in a commercially reasonable manner;
- We will not guarantee more than $500 million of the indebtedness of, make any investments in, or purchase any real property or manufacturing equipment classified as an automotive asset from Ford or any of Ford's automotive affiliates;
- We will not be required by Ford or any of Ford's automotive affiliates to accept credit or residual risk beyond what we would be willing to accept acting in a prudent and commercially reasonable manner (taking into consideration any interest rate supplements or residual value support payments, guarantees, or other subsidies that are provided to us by Ford or any of Ford's automotive affiliates);
- We and Ford are separate, legally distinct companies, and we will continue to maintain separate books and accounts. We will prevent our assets from being commingled with Ford's assets, and hold ourselves out as a separate and distinct company from Ford and Ford's automotive affiliates;
- Allocates to us $3.0 billion of commitments, including commitments under a Chinese renminbi sub-facility as the amount we may borrow as a Subsidiary Borrower under Ford's corporate credit facility and requires us to reimburse Ford for a proportionate amount of Ford's costs under that credit facility; and
- Prohibits Ford from terminating Ford's corporate credit facility prior to its maturity, or taking any other action that would impair our ability to borrow under that credit facility, without our prior written consent.

We also have an agreement to maintain FCE's net worth in excess of $500 million. No payments have been made to FCE pursuant to the agreement during the 2001 through 2018 periods.

More information about agreements between us and Ford and other affiliates is contained in our Notes to the Financial Statements, "Business - Overview," "Business - Consumer Financing - Retail Financing," "Business - Non-Consumer Financing - Other Financing," and the description of Ford's business in Ford's 2018 Form 10-K Report.

## ITEM 1A. *Risk Factors.*

We have listed below (not necessarily in order of importance or probability of occurrence) the most significant risk factors applicable to Ford or Ford Credit:

***Ford's long-term competitiveness depends on the successful execution of fitness actions.*** Ford has announced fitness redesign plans to transform the operational fitness of its business by becoming more customer centric and adopting processes that emphasize simplicity, speed and agility, efficiency, and accountability. Ford is working on 18 major initiatives as part of its fitness redesign efforts. In addition, to further improve its fitness and overall competitiveness, Ford is leveraging relationships with third parties, including the recently announced alliance with Volkswagen AG to develop commercial vans and medium-sized pickups for global markets beginning as early as 2022. The goal of the alliance is to drive scale and efficiencies and enable both companies to share investments in vehicle architectures. If Ford's fitness actions are not successful or are delayed, Ford may not be able to materially lower costs in the near term or improve its competitiveness in the long term, which could have an adverse effect on its profitability.

***Industry sales volume, particularly in the United States, Europe, or China, can be volatile and could decline if there is a financial crisis, recession, or significant geopolitical event.*** Because Ford, like other manufacturers, has a high proportion of relatively fixed structural costs, relatively small changes in industry sales volume can have a substantial effect on its cash flow and profitability. Industry vehicle sales are affected by overall economic and market conditions. If industry vehicle sales were to decline to levels significantly below Ford's planning assumption, particularly in the United States, Europe, or China, the decline could have a substantial adverse effect on Ford's financial condition, results of operations, and cash flow.

***Ford's new and existing products and mobility services are subject to market acceptance.*** Although Ford conducts extensive market research before launching new or refreshed vehicles and introducing new services, many factors both within and outside Ford's control affect the success of new or existing products and services in the marketplace. It takes years to design and develop a new vehicle or change an existing vehicle. Because customers' preferences may change quickly, Ford's new and existing products may not generate sales in sufficient quantities and at high enough prices to be profitable. Offering vehicles and services that customers want and value can mitigate the risks of increasing price competition and declining demand, but products and services that are perceived to be less desirable (whether in terms of price, quality, styling, safety, overall value, fuel efficiency, or other attributes) can exacerbate these risks. With increased consumer interconnectedness through the internet, social media, and other media, mere allegations relating to quality, safety, fuel efficiency, corporate social responsibility, or other key attributes can negatively impact Ford's reputation or market acceptance of its products or services, even where such allegations prove to be inaccurate or unfounded. Further, Ford's ability to successfully grow through investments in the area of mobility and electrification depends on many factors, including advancements in technology, regulatory changes, and other factors that are difficult to predict that may significantly affect the future of autonomous vehicles and mobility services. Rapid changes to Ford's industry, including the introduction of new types of competitors who may possess technological innovations, increase the significance that Ford is able to anticipate, develop, and deliver products and services that customers desire.

***Ford's results are dependent on sales of larger, more profitable vehicles, particularly in the United States.*** A shift in consumer preferences away from larger, more profitable vehicles (including trucks and utilities) at levels beyond Ford's current planning assumption—whether because of spiking fuel prices, a decline in the construction industry, government actions or incentives, or other reasons—could result in an immediate and substantial adverse effect on Ford's results and financial condition.

***Ford may face increased price competition resulting from industry excess capacity, currency fluctuations, or other factors.*** The global automotive industry is intensely competitive, with manufacturing capacity far exceeding current demand. According to the December 2018 report issued by IHS Automotive, the global automotive industry is estimated to have had excess capacity of about 42 million units in 2018, an increase of about 7 million units from the prior year. Industry overcapacity has resulted in many manufacturers offering marketing incentives on vehicles in an attempt to maintain and grow market share; these incentives historically have included a combination of subsidized financing or leasing programs, price rebates, and other incentives. As a result, Ford is not necessarily able to set its prices to offset higher costs of marketing incentives, commodity or other cost increases, or the impact of adverse currency fluctuations, including pricing advantages foreign competitors may have because of their weaker home market currencies. Continuation of or increased excess capacity, particularly for trucks and utilities, could have a substantial adverse effect on Ford's financial condition and results of operations.

***Fluctuations in commodity prices, foreign currency exchange rates, and interest rates can have a significant effect on results.*** As a resource-intensive manufacturing operation, Ford and Ford Credit are exposed to a variety of market risks, including the effects of changes in commodity prices, foreign currency exchange rates, and interest rates. Ford and Ford Credit monitor and manage these exposures as an integral part of their overall risk management program, which recognizes the unpredictability of markets and seeks to reduce potentially adverse effects on our business. Changes in commodity prices (from tariffs or otherwise), currency exchange rates, and interest rates cannot always be predicted, hedged, or offset with price increases to eliminate earnings volatility. As a result, significant changes in commodity prices, foreign currency exchange rates, or interest rates could have a substantial adverse effect on Ford's and/or Ford Credit's financial condition and results of operations.

***With a global footprint, Ford's results could be adversely affected by economic, geopolitical, protectionist trade policies, or other events, including Brexit.*** With the increasing interconnectedness of global economic and financial systems, a financial crisis, natural disaster, geopolitical crisis, or other significant event in one area of the world can have an immediate and material adverse impact on markets around the world. Recent steps taken by the U.S. government to apply and consider applying tariffs on automobiles, parts, and other products and materials have the potential to disrupt existing supply chains and impose additional costs on Ford's business. Further, other countries could attempt to retaliate by imposing tariffs that would increase the cost for Ford to import its vehicles into such countries.

Concerns persist regarding the overall stability of the European Union, given the diverse economic and political circumstances of individual European countries. These concerns have been exacerbated by Brexit. A hard Brexit, which would result in the United Kingdom losing access to free trade agreements for goods and services with the European Union and other countries, would likely result in a significant reduction in industry volumes in the United Kingdom, increased tariffs on U.K. imports and exports, and delays at the U.K. border. The total costs to Ford of a hard Brexit, not including currency exchange related effects, could be $500 million to $1 billion in 2019.

FCE is a bank authorized by the U.K. government to carry on a range of regulated activities within the United Kingdom and through a branch network in 11 other European countries through a passporting system, which allows it to establish or provide its services in those countries without further authorization requirements. 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, including the European Central Bank, granting licenses, where necessary, prior to the expiration of passporting rights.

Ford has operations in various markets with volatile economic or political environments and is pursuing growth opportunities in a number of newly developed and emerging markets. These investments may expose Ford to heightened risks of economic, geopolitical, or other events, including governmental takeover (i.e., nationalization) of Ford's manufacturing facilities or intellectual property, restrictive exchange or import controls, disruption of operations as a result of systemic political or economic instability, outbreak of war or expansion of hostilities, and acts of terrorism, each of which could have a substantial adverse effect on Ford's financial condition and results of operations. Further, the U.S. government, other governments, and international organizations could impose additional sanctions that could restrict Ford and Ford Credit from doing business directly or indirectly in or with certain countries or parties, which could include affiliates.

***Ford's production, as well as Ford's suppliers' production, could be disrupted by labor disputes, natural or man-made disasters, financial distress, production difficulties, or other factors.*** A work stoppage or other limitation on production could occur at Ford or its suppliers' facilities for any number of reasons, including as a result of disputes under existing collective bargaining agreements with labor unions or in connection with negotiation of new collective bargaining agreements, as a result of labor disputes in response to potential restructuring actions (e.g., plant closures), as a result of supplier financial distress or other production constraints or difficulties, or for other reasons. Many components used in Ford's vehicles are available only from a single supplier and therefore cannot be re-sourced quickly or inexpensively to another supplier (due to long lead times, new contractual commitments that may be required by another supplier before ramping up to provide the components or materials, etc.). Such single-source suppliers also could threaten to disrupt Ford's production as leverage in negotiations. A significant disruption to Ford's production schedule could have a substantial adverse effect on its financial condition and results of operations.

***Ford's ability to maintain a competitive cost structure could be affected by labor or other constraints.*** Substantially all of the hourly employees in Ford's Automotive operations in the United States and Canada are represented by unions and covered by collective bargaining agreements. These agreements provide guaranteed wage and benefit levels throughout the contract term and some degree of income security, subject to certain conditions. As a practical matter, these agreements may restrict Ford's ability to close plants and divest businesses. A substantial number of Ford's employees in other regions are represented by unions or government councils, and legislation or custom promoting retention of manufacturing or other employment in the state, country, or region may constrain as a practical matter Ford's ability to sell or close manufacturing or other facilities.

***Pension and other postretirement liabilities could adversely affect Ford's liquidity and financial condition.*** Ford has defined benefit retirement plans in the United States that cover many of its hourly and salaried employees. Ford also provides pension benefits to non-U.S. employees and retirees, primarily in Europe. In addition, Ford and certain of its subsidiaries sponsor plans to provide other postretirement benefits ("OPEB") for retired employees (primarily health care and life insurance benefits). These benefit plans impose significant liabilities on Ford and could require Ford to make additional cash contributions, which could impair Ford's liquidity. If Ford's cash flows and capital resources were insufficient to meet any pension or OPEB obligations, Ford could be forced to reduce or delay investments and capital expenditures, suspend dividend payments, seek additional capital, or restructure or refinance its indebtedness.

***Economic and demographic experience for pension and other postretirement benefit plans (e.g., discount rates or investment returns) could be worse than Ford has assumed.*** The measurement of Ford's obligations, costs, and liabilities associated with benefits pursuant to its pension and other postretirement benefit plans requires that Ford estimate the present value of projected future payments to all participants. Ford uses many assumptions in calculating these estimates, including assumptions related to discount rates, investment returns on designated plan assets, and demographic experience (e.g., mortality and retirement rates). Ford generally remeasures these estimates at each year end, and recognizes any gains or losses associated with changes to its plan assets and liabilities in the year incurred. To the extent actual results are less favorable than Ford's assumptions, Ford may recognize a substantial remeasurement loss in its results.

***Ford's vehicles could be affected by defects that result in delays in new model launches, recall campaigns, or increased warranty costs.*** Government safety standards require manufacturers to remedy defects related to vehicle safety through safety recall campaigns, and a manufacturer is obligated to recall vehicles if it determines that the vehicles do not comply with a safety standard. The National Highway Traffic Safety Administration's ("NHTSA") enforcement strategy has shifted to a significant increase in civil penalties levied and the use of consent orders requiring direct oversight by NHTSA of certain manufacturers' safety processes, a trend that could continue. Should Ford or government safety regulators determine that a safety or other defect or a noncompliance exists with respect to certain of Ford's vehicles prior to the start of production, the launch of such vehicle could be delayed until such defect is remedied. The cost of recall and customer satisfaction actions to remedy defects in vehicles that have been sold could be substantial, particularly if the actions relate to global platforms or involve defects that are identified years after production (e.g., Takata airbag inflators). Such recall and customer satisfaction actions may relate to defective components Ford receives from suppliers, and Ford's ability to recover from the suppliers may be limited by the suppliers' financial condition. Furthermore, launch delays, recall actions, and increased warranty costs could adversely affect Ford's reputation or market acceptance of its products as discussed above under "*Ford's new and existing products and mobility services are subject to market acceptance.*"

***Ford may need to substantially modify its product plans to comply with safety, emissions, fuel economy, and other regulations that may change in the future.*** The worldwide automotive industry is governed by a substantial amount of government regulation, which often differs by state, region, and country. Government regulation has increased, and proposals for additional regulation are advanced, primarily out of concern for the environment (including concerns about global climate change and its impact), vehicle safety, and energy independence. For example, as discussed under "Item 1. Business - Governmental Standards" in Ford's 2018 Form 10-K Report, in the United States the CAFE standards for light duty vehicles increase sharply to approximately 50 mpg by the 2025 model year; EPA's parallel $CO_2$ emission regulations impose similar standards. California's zero-emission vehicles ("ZEV") rules also mandate steep increases in the sale of electric vehicles and other advanced technology vehicles through the 2025 model year; the ZEV mandate is now being expanded to include medium- and heavy-duty vehicles, and even more burdensome regulations are likely to follow. In addition, many governments regulate local product content and/or impose import requirements as a means of creating jobs, protecting domestic producers, and influencing the balance of payments.

Ford is continuing to make changes to its product cycle plan to improve the fuel economy of its petroleum-powered vehicles and to offer more electrified vehicles with lower GHG emissions. There are limits on Ford's ability to achieve fuel economy improvements over a given time frame, however, primarily relating to the cost and effectiveness of available technologies, consumer acceptance of new technologies and changes in vehicle mix, willingness of consumers to absorb the additional costs of new technologies, the appropriateness (or lack thereof) of certain technologies for use in particular vehicles, the widespread availability (or lack thereof) of supporting infrastructure for new technologies, and the human, engineering, and financial resources necessary to deploy new technologies across a wide range of products and powertrains in a short time. The current fuel economy, $CO_2$, and ZEV standards will be difficult to meet if fuel prices remain relatively low and market conditions do not drive consumers to purchase electric vehicles and other highly fuel-efficient vehicles in large numbers.

Increased scrutiny of automaker emission testing by regulators around the world has led to new regulations, more stringent enforcement programs, requests for field actions, and/or delays in regulatory approvals. The cost to comply with existing government regulations is substantial and additional regulations or changes in consumer preferences that affect vehicle mix could have a substantial adverse impact on Ford's financial condition and results of operations. In addition, a number of governments, as well as non-governmental organizations, publicly assess vehicles to their own protocols. The protocols could change aggressively, and any negative perception regarding the performance of Ford's vehicles subjected to such tests could reduce future sales. Court decisions arising out of consumer and investor litigation could give rise to *de facto* changes in the interpretation of existing emission laws and regulations, thereby imposing new burdens on manufacturers.

***Ford could experience unusual or significant litigation, governmental investigations, or adverse publicity arising out of alleged defects in products, perceived environmental impacts, or otherwise.*** Ford spends substantial resources ensuring that it complies with governmental safety regulations, mobile and stationary source emissions regulations, and other standards. Compliance with governmental standards, however, does not necessarily prevent individual or class actions, which can entail significant cost and risk. In certain circumstances, courts may permit tort claims even where Ford's vehicles comply with federal and/or other applicable law. Furthermore, simply responding to actual or threatened litigation or government investigations of Ford's compliance with regulatory standards, whether related to Ford's products or business or commercial relationships, may require significant expenditures of time and other resources. Litigation also is inherently uncertain, and Ford could experience significant adverse results. In addition, adverse publicity surrounding an allegation may cause significant reputational harm that could have a significant adverse effect on Ford's sales.

***Ford's receipt of government incentives could be subject to reduction, termination, or clawback.*** Ford receives economic benefits from national, state, and local governments in various regions of the world in the form of incentives designed to encourage manufacturers to establish, maintain, or increase investment, workforce, or production. These incentives may take various forms, including grants, loan subsidies, and tax abatements or credits. The impact of these incentives can be significant in a particular market during a reporting period. For example, most of Ford's manufacturing facilities in South America are located in Brazil, where the state or federal governments have historically offered, and continue to offer, significant incentives to manufacturers to encourage capital investment, increase manufacturing production, and create jobs. As a result, the performance of Ford's South American operations has been impacted favorably by government incentives to a substantial extent. In Brazil, however, the federal government has levied assessments against Ford concerning Ford's calculation of federal incentives it received, and certain states have challenged the grant to Ford of tax incentives by the State of Bahia. A decrease in, expiration without renewal of, or other cessation or clawback of government incentives for any of Ford's business units, as a result of administrative decision or otherwise, could have a substantial adverse impact on Ford's financial condition and results of operations. See "Item 3. Legal Proceedings" in Ford's 2018 Form 10-K Report for a discussion of tax proceedings in Brazil and the potential requirement for Ford to post collateral.

***Operational systems, security systems, and vehicles could be affected by cyber incidents.*** Ford and Ford Credit rely on information technology networks and systems, including in-vehicle systems and mobile devices, some of which are managed by suppliers, to process, transmit, and store electronic information that is important to the operation of their businesses and Ford's vehicles. Despite security measures, Ford and Ford Credit are at risk for interruptions, outages, and breaches of: (i) operational systems (including business, financial, accounting, product development, consumer receivables, data processing, or manufacturing processes); (ii) facility security systems; and/or (iii) in-vehicle systems or mobile devices. Such cyber incidents could materially disrupt operational systems; result in loss of trade secrets or other proprietary or competitively sensitive information; compromise the privacy of personal information of customers, employees, or others; jeopardize the security of their facilities; affect the performance of in-vehicle systems; and/or impact the safety of Ford's vehicles. A cyber incident could be caused by malicious third parties using sophisticated, targeted methods to circumvent firewalls, encryption, and other security defenses, including hacking, fraud, trickery, or other forms of deception. Ford, Ford Credit, their suppliers, and dealers have been the target of these types of attacks in the past and such attacks are likely to occur in the future. The techniques used for attacks by third parties change frequently and may become more sophisticated, which may cause cyber incidents to be difficult to detect for long periods of time. Ford's and Ford Credit's networks and Ford's in-vehicle systems may also be affected by computer viruses or breaches due to the negligence or misconduct of employees, contractors, and/or others who have access to Ford's and Ford Credit's networks and systems. A significant cyber incident could harm Ford's or Ford Credit's reputation and/or subject Ford or Ford Credit to regulatory actions or litigation, and a significant cyber incident involving Ford or one of its suppliers could impact Ford's production capability.

Ford and Ford Credit are subject to laws, rules, and regulations in the United States and other countries relating to the collection, use, and security of personal information of customers, employees, or others, including laws that may require Ford and Ford Credit to notify regulators and affected individuals of a data security breach. Regulatory actions seeking to impose significant penalties and/or legal actions could be brought against Ford and Ford Credit in the event of a data breach or perceived or actual non-compliance with data protection or privacy requirements. Among these requirements is the European Union's General Data Protection Regulation ("GDPR"), which came into effect on May 25, 2018.

***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, or other factors.*** Ford Credit's ability to obtain unsecured funding at a reasonable cost is dependent on its credit ratings or its perceived creditworthiness. Ford Credit's ability to obtain securitized funding under its committed asset-backed liquidity programs and certain other asset-backed securitization transactions is subject to having a sufficient amount of assets eligible for these programs, as well as Ford Credit's ability to obtain appropriate credit ratings and, for certain committed programs, derivatives to manage the interest rate risk. Over time, and particularly in the event of any credit rating downgrades, market volatility, market disruption, or other factors, Ford Credit may reduce the amount of receivables it purchases or originates because of funding constraints. The potential phase out of LIBOR is one such risk that could cause market volatility or disruption. In July 2017 the chief executive of the FCA, which regulates LIBOR, announced that the FCA intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. It is unknown whether any banks will continue to voluntarily submit rates for the calculation of LIBOR after 2021 or whether LIBOR will continue to be published by its administrator based on these submissions or on any other basis. It is not possible to predict the effect of these changes, other reforms, or the establishment of alternative reference rates, but the potential phase out of LIBOR could adversely affect Ford Credit's access to the capital markets and cost of funding. In addition, Ford Credit may be limited in the amount of receivables it purchases or originates in certain countries or regions if the local capital markets, particularly in developing countries, do not exist or are not adequately developed. Similarly, Ford Credit may reduce the amount of receivables it purchases or originates if there is a significant decline in the demand for the types of securities it offers or Ford Credit is unable to obtain derivatives to manage the interest rate risk associated with its securitization transactions. A significant reduction in the amount of receivables Ford Credit purchases or originates would significantly reduce its ongoing profits and could adversely affect its ability to support the sale of Ford vehicles.

***Ford Credit could experience higher-than-expected credit losses, lower-than-anticipated residual values, or higher-than-expected return volumes for leased vehicles.*** Credit risk is the possibility of loss from a customer's or dealer's failure to make payments according to contract terms. Credit risk (which is heavily dependent upon economic factors including unemployment, consumer debt service burden, personal income growth, dealer profitability, and used car prices) has a significant impact on Ford Credit's business. The level of credit losses Ford Credit may experience could exceed its expectations and adversely affect its financial condition and results of operations. In addition, Ford Credit projects expected residual values (including residual value support payments from Ford) and return volumes for the vehicles it leases. Actual proceeds realized by Ford Credit upon the sale of returned leased vehicles at lease termination may be lower than the amount projected, which would reduce the profitability of the lease transaction. Among the factors that can affect the value of returned lease vehicles are the volume of vehicles returned, economic conditions, marketing programs, and quality or perceived quality, safety, fuel efficiency, or reliability of the vehicles. Actual return volumes may be influenced by these factors as well as by contractual lease-end values relative to auction values. Each of these factors, alone or in combination, has the potential to adversely affect Ford Credit's profitability if actual results were to differ significantly from Ford Credit's projections.

***Ford Credit could face increased competition from banks, financial institutions, or other third parties seeking to increase their share of financing Ford vehicles.*** No single company is a dominant force in the automotive finance industry. Most of Ford Credit's competitors in the United States use credit aggregation systems that permit dealers to send, through standardized systems, retail credit applications to multiple finance sources to evaluate financing options offered by these sources. Also, direct on-line or large dealer group financing options provide consumers with alternative finance sources and/or increased pricing transparency. All of these financing alternatives drive greater competition based on financing rates and terms. Competition from such institutions and alternative finance sources could adversely affect Ford Credit's profitability and the volume of its retail business. In addition, Ford Credit may face increased competition on wholesale financing for Ford dealers.

***Ford Credit could be subject to new or increased credit regulations, consumer or data protection regulations, or other regulations.*** As a finance company, Ford Credit is highly regulated by governmental authorities in the locations in which it operates, which can impose significant additional costs and/or restrictions on its business. In the United States, for example, Ford Credit's operations are subject to regulation and supervision under various federal, state, and local laws, including the federal Truth-in-Lending Act, Consumer Leasing Act, Equal Credit Opportunity Act, and Fair Credit Reporting Act.

The Dodd-Frank Act directs federal agencies to adopt rules to regulate the finance industry and the capital markets and gives the CFPB broad rule-making and enforcement authority for a wide range of consumer financial protection laws that regulate consumer finance businesses, such as Ford Credit's automotive financing business. Exercise of these powers by the CFPB may increase the costs of, impose additional restrictions on, or otherwise adversely affect companies in the automotive finance business. The CFPB has authority to supervise and examine the largest nonbank automotive finance companies, such as Ford Credit, for compliance with consumer financial protection laws.

## ITEM 1B. *Unresolved Staff Comments.*

None.

**ITEM 2. *Properties.***

We own our world headquarters in Dearborn, Michigan. Most of our automotive finance operations are located in leased properties. The continued use of any of these leased properties is not material to our operations. At December 31, 2018, our total future rental commitment under leases of real property was $95 million.

We operate through four business centers in the United States and two business centers in Canada.

| | | |
|---|---|---|
| United States: | Colorado Springs, Colorado | Greenville, South Carolina |
| | Tampa, Florida | Nashville, Tennessee |
| Canada: | Edmonton, Alberta | Oakville, Ontario |

Each of the U.S. business centers generally services dealers and customers located within its region. All of our U.S. business centers are electronically linked and workload can be allocated across these centers. In addition, our Canadian business centers share a similar electronic linkage and workload allocation capability.

We also have three specialty centers in North America that focus on specific activities:

- Customer Service Center - Omaha, Nebraska;
- Loss Prevention Center - Irving, Texas; and
- National Recovery Center - Mesa, Arizona.

In Europe, we have a service center in Manchester, England that services our U.K. dealers and customers and dealers from multiple European countries. We also have a service center in Cologne, Germany to service our German dealers and customers. We have other service centers around the world and provide servicing through our local branches and subsidiaries.

**ITEM 3. *Legal Proceedings.***

Various legal actions, proceedings, and claims (generally, "matters") are pending or may be instituted or asserted against us. These include but are not limited to matters arising out of governmental regulations; tax matters; alleged illegal acts resulting in fines or penalties; financial services; employment-related matters; dealer and other contractual relationships; personal injury matters; investor matters; and financial reporting matters. Certain of the pending legal actions are, or purport to be, class actions. Some of the matters involve or may involve claims for compensatory, punitive, or antitrust or other treble damages in very large amounts, sanctions, assessments, or other relief, which, if granted, would require very large expenditures. Our significant pending matter is summarized below:

*European Competition Law Matter.* On October 5, 2018, FCE Bank plc received a notice from the Italian Competition Authority (the "ICA") concerning an alleged violation of Article 101 of the Treaty on the Functioning of the European Union. The ICA alleges that FCE Bank plc and other parties engaged in anti-competitive practices in relation to the automotive finance market in Italy. On January 9, 2019, FCE Bank plc received a decision from the ICA, which included an assessment of a fine against FCE Bank plc in the amount of about $50 million. FCE Bank plc plans to appeal the decision and the fine, with the ultimate resolution of the matter potentially taking several years.

The litigation process is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. It is reasonably possible that matters could be decided unfavorably to us. Although the amount of liability at December 31, 2018, with respect to litigation matters cannot be ascertained, we believe that any resulting liability would not materially affect our operations, financial condition, or liquidity.

In addition, any litigation, investigation, proceeding, or claim against Ford that results in Ford incurring significant liability, expenditures, or costs could also have a material adverse effect on our operations, financial condition, or liquidity. For a discussion of pending significant cases against Ford, see Item 3 in Ford's 2018 Form 10-K Report.

**ITEM 4. *Mine Safety Disclosures.***

Not applicable.

## PART II

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

At December 31, 2018, 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 2018, and there is no market for our Shares. We paid cash distributions to our parent of $406 million and $2.7 billion in 2017 and 2018, respectively.

**ITEM 6.** ***Selected Financial Data.***

Not required.

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

**Overview**

Our primary focus is to profitably support the sale of Ford and Lincoln vehicles. 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. The first is to employ prudent origination practices while maintaining a managed level of risk. The second is to have efficient and effective servicing and collection practices. The third is 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 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 installment sale and 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 (Americas, Europe, and Asia Pacific) on a managed basis. Receivables are presented on a managed basis, as it closely approximates the customer's outstanding balance on the receivables, which is the basis for earning revenue. Our managed receivables equal net finance receivables and net investment in operating leases, excluding unearned interest supplements and residual support, allowance for credit losses, and other (primarily accumulated supplemental depreciation). To evaluate our performance we monitor a number of measures, such as delinquencies, repossession statistics, losses on repossessions, and the number of bankruptcy filings.

We measure the performance of our segments primarily on an *Income before income taxes*, 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. We also adjust segment performance to reallocate interest expense among the segments reflecting debt and equity levels proportionate to their product risk. For additional information regarding our segments, see Note 17 of our Notes to the Financial Statements.

**Results of Operations**

*Overview*

In general, we measure period-to-period changes in earnings before taxes using the causal factors listed below:

- *Volume and Mix* – Volume and Mix are primarily reflected within *Net financing margin* on the income statement.
  - Volume primarily measures changes in net financing margin driven by changes in average managed receivables 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 vehicle sales and leases, the extent to which we purchase retail installment sale and 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 managed receivables by product and by country or region.

- *Financing Margin* – Financing Margin is reflected within *Net financing margin* on the income statement.
  - Financing margin variance is the period-to-period change in financing margin yield multiplied by the present period average managed receivables 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 managed receivables 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 income statement.
  - 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 economic conditions. For additional information, refer to the "Critical Accounting Estimates" section.

- *Lease Residual* – Lease Residual is reflected within *Depreciation on vehicles subject to operating leases* on the income statement.
  - 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. For additional information, refer to the "Critical Accounting Estimates" section.

- *Exchange* – Reflects changes in EBT results 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* on the income statement 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 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 on the Funding Structure, Liquidity Sources, and Leverage charts) – *Cash and cash equivalents and Marketable securities* reported on Ford Credit's balance sheet, excluding amounts related to insurance activities

- *Earnings Before Taxes (EBT)* – Reflects *Income before income taxes* as reported on Ford Credit's income statement

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

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

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

- *Total Debt* (as shown on the Leverage chart) – *Debt* on Ford Credit's balance sheet. 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

- *Total Net Receivables* (as shown on the Key Metrics and Receivables charts) – Includes finance receivables (retail 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 balance sheet 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 on the EBT by Segment chart) – 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 - 2018*

The following chart shows our full year 2018 key metrics compared with full year 2017:

## FY 2018 Key Metrics

| | FULL YEAR 2017 | FULL YEAR 2018 | H / (L) |
|---|---|---|---|
| Net Receivables (Bils) | $ 143 | $ 146 | 3 % |
| Managed Receivables* (Bils) | $ 151 | $ 155 | 3 % |
| Loss-to-Receivables** (LTR) | 53 bps | 46 bps | (7) bps |
| Auction Values*** | $ 17,430 | $ 18,055 | 4 % |
| Earnings Before Taxes (EBT) (Mils) | $ 2,310 | $ 2,627 | $ 317 |
| ROE (Pct) | 22 % | 14 % | (8) ppt |
| **Other Balance Sheet Metrics** | | | |
| Debt (Bils) | $ 138 | $ 140 | 2 % |
| Liquidity (Bils) | $ 30 | $ 27 | (7) % |
| Financial Statement Leverage (to 1) | 8.7 | 9.4 | 0.7 |
| Managed Leverage* (to 1) | 8.0 | 8.8 | 0.8 |

* Reconciliation to GAAP provided in the Financial Condition section
** U.S. retail and lease
*** U.S. 36-month off-lease full year auction values at FY 2018 mix

- Best FY EBT in 8 years
- U.S. consumer credit metrics healthy with improved LTR
- Balance sheet and liquidity remain strong; managed leverage within target range of 8:1 to 9:1

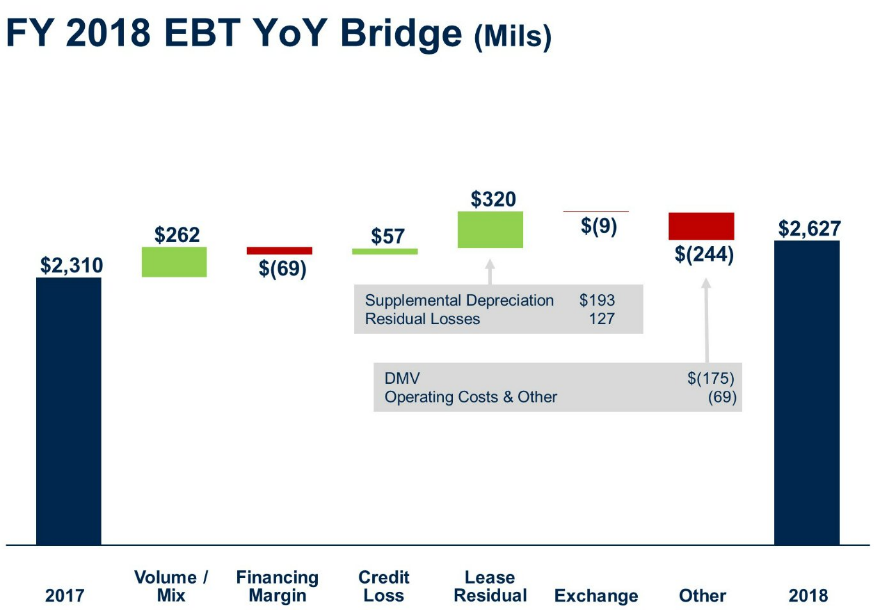
In 2018, EBT was $2,627 million, $317 million higher compared with the prior year.

Net receivables and managed receivables were 3% higher compared with a year ago, led by growth in the United States. Consumer credit metrics were healthy in the United States, with the loss-to-receivables ratio at 0.46%, which improved seven basis points from a year ago. U.S. auction values were up 4% compared with 2017.

ROE was 14%, eight percentage points lower compared with a year ago, primarily reflecting the non-recurrence of the impact of the Tax Cuts and Jobs Act of 2017 on our provision for income taxes.

Our balance sheet remains strong with managed leverage within our target range of 8:1 to 9:1.

The following chart shows the factors that contributed to the strong full year 2018 EBT:




- FY EBT at $2.6B, up $317M YoY; reflects favorable lease residual performance, driven by higher auction values, and volume and mix
- Other primarily reflects unfavorable derivatives market valuation

Our 2018 EBT was $317 million higher than a year ago, led by favorable lease residual performance and favorable volume and mix. This was offset in part by unfavorable derivatives market valuation.

We have three reportable segments in our consolidated financial statements that align with our management reporting structure and reflect the manner in which our Chief Operating Decision Maker manages our business, including resource allocation and performance assessment. These segments are: the Americas, Europe, and Asia Pacific. Items excluded in assessing segment performance, because they are managed at the corporate level, are reflected in Unallocated Other. Results of operations by segment and Unallocated Other for full year 2018 are shown below (in millions). For additional information, see Note 17 of our Notes to the Financial Statements.

## 2018 EBT By Segment

| | FY | |
|---|---|---|
| | 2018 | H / (L) 2017 |
| Results (Mils) | | |
| Americas segment | $ 2,208 | $ 413 |
| Europe segment | 391 | 62 |
| Asia Pacific segment | 102 | 17 |
| Total segments | $ 2,701 | $ 492 |
| Unallocated other | (74) | (175) |
| Earnings before taxes | $ 2,627 | $ 317 |
| (Provision for) / Benefit from income taxes | (403) | (1,100) |
| Net income | $ 2,224 | $ (783) |
| | | |
| Contract placement volumes (000) | 2,071 | (78) |

Our 2018 net income was $2.2 billion, a decrease of $0.8 billion compared with the prior year, primarily reflecting the non-recurrence of the impact of the Tax Cuts and Jobs Act of 2017.

*Americas Segment*

The Americas Segment EBT of $2.2 billion for full year 2018 was $413 million higher compared with 2017, more than explained by favorable lease residual performance, favorable volume and mix, and lower insurance losses. This was partially offset by increased operating costs.

*Europe Segment*

The Europe Segment EBT of $391 million for full year 2018 was $62 million higher compared with 2017, explained primarily by favorable volume and mix. Higher operating costs due to Brexit were a partial offset.

*Asia Pacific Segment*

The Asia Pacific Segment EBT of $102 million for full year 2018 was $17 million higher compared with 2017, explained primarily by favorable volume and mix and tax incentives. Lower financing margin was a partial offset.

*Unallocated Other*

Unallocated Other was a $74 million loss for full year 2018, a $175 million deterioration compared with 2017, reflecting unfavorable performance in market valuation adjustments to derivatives.

*Results of Operations - 2017*

The following chart shows our full year 2017 key metrics compared with full year 2016:

## FY 2017 Key Metrics

| | FULL YEAR | | |
|---|---|---|---|
| | 2016 | 2017 | H / (L) |
| Net Receivables (Bils) | $ 130 | $ 143 | 10 % |
| Managed Receivables* (Bils) | $ 137 | $ 151 | 10 % |
| Loss-to-Receivables** (LTR) | 47 bps | 53 bps | 6 bps |
| Auction Values*** | $17,910 | $17,430 | (3) % |
| EBT (Mils) | $ 1,879 | $ 2,310 | $ 431 |
| ROE (Pct) | 11 % | 22 % | 11 ppts |
| **Other Balance Sheet Metrics** | | | |
| Debt (Bils) | $ 126 | $ 138 | 9 % |
| Liquidity (Bils) | $ 27 | $ 30 | 9 % |
| Financial Statement Leverage (to 1) | 9.9 | 8.7 | (1.2) |
| Managed Leverage* (to 1) | 9.2 | 8.0 | (1.2) |

* Reconciliation to GAAP provided in the Financial Condition section
** U.S. retail and lease
*** U.S. 36-month off-lease full year auction values at FY 2018 mix

- Strong FY EBT
- U.S. consumer credit metrics healthy and within expectations
- Strong liquidity; managed leverage within target range of 8:1 to 9:1

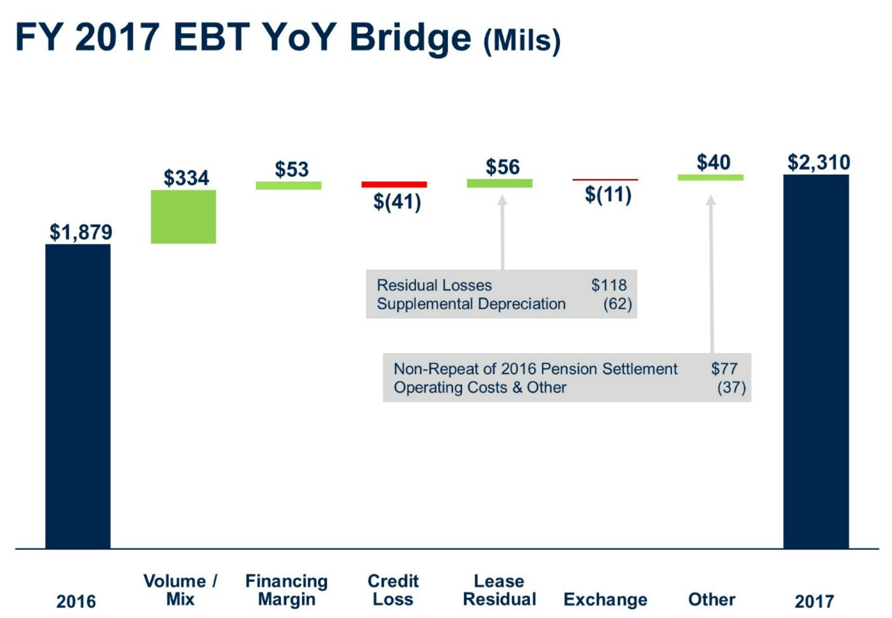
In 2017, EBT was $2,310 million, $431 million higher compared with 2016.

Net receivables and managed receivables were 10% higher compared with 2016, primarily reflecting global growth in retail receivables, an increase of about $4 billion due to foreign exchange, and the consolidation of our Forso joint venture. At December 31, 2017, Forso receivables were $1.4 billion.

ROE was 22%, 11 percentage points higher compared with 2016, primarily reflecting the impact of the Tax Cuts and Jobs Act of 2017.

U.S. consumer credit metrics were healthy, with the loss-to-receivables ratio at 0.53%, up 6 basis points from 2016 and within expectations.

The following chart shows the increase in full year 2017 EBT compared with full year 2016 by causal factor:




- EBT improved $431M YoY reflecting favorable volume and mix, lease residual improvement and financing margin
- Volume and mix up due to global receivables growth
- Lease residual improvement driven by higher than expected auction values

Ford Credit's full year 2017 EBT was $431 million higher than the prior year, reflecting favorable volume and mix, lease residual improvement, and financing margin.

Results of operations by segment and Unallocated Other for full year 2017 are shown below (in millions). For additional information, see Note 17 of our Notes to the Financial Statements.

## 2017 EBT By Segment

| | FY | |
|---|---|---|
| | 2017 | H / (L) 2016 |
| Results (Mils) | | |
| Americas segment | $ 1,795 | $ 284 |
| Europe segment | 329 | 91 |
| Asia Pacific segment | 85 | 24 |
| Total segments | $ 2,209 | $ 399 |
| Unallocated other | 101 | 32 |
| Earnings before taxes | $ 2,310 | $ 431 |
| (Provision for) / Benefit from income taxes | 697 | 1,203 |
| Net income | $ 3,007 | $ 1,634 |
| Contract placement volumes (000) | 2,149 | 38 |

Our 2017 net income was $3.0 billion, an increase of $1.6 billion compared with 2016, primarily reflecting the positive impact of the Tax Cuts and Jobs Act of 2017.

*Americas Segment*

The Americas Segment EBT of $1.8 billion for full year 2017 was $284 million higher compared with 2016, explained primarily by favorable volume and mix, financing margin, and lease residual performance driven by improved residual losses on the lease portfolio, partially offset by operating costs and other.

*Europe Segment*

The Europe Segment EBT of $329 million for full year 2017 was $91 million higher compared with 2016, explained primarily by the non-recurrence of a 2016 cost due to FCE Bank's settlement of a pension deficit in a Ford-sponsored retirement plan (offset fully in Ford of Europe's results), and favorable volume and mix.

*Asia Pacific*

The Asia Pacific Segment EBT of $85 million for full year 2017 was $24 million higher compared with 2016, explained primarily by favorable volume and mix, partially offset by lower financing margin driven by higher borrowing costs.

*Unallocated Other*

Unallocated Other EBT of $101 million for 2017 was $32 million higher compared with 2016, explained primarily by favorable performance in market valuation adjustments to derivatives.

**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 chart shows our United States and Canada retail installment and lease share of new Ford and Lincoln brand vehicle retail sales and wholesale financing share of new Ford and Lincoln brand vehicles acquired by dealers. Also shown is the Americas segment consumer financing contract placement volume for new and used vehicles. All data is for the years ended December 31:

## Americas Financing Shares And Contract Placement Volume

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Financing Shares (%)** | | | | | |
| Retail Installment and Lease Share of Ford Retail Sales (excl. Fleet) | | | | | |
| United States | 63 % | 65 % | 56 % | 55 % | 58 % |
| Canada | 67 | 73 | 75 | 77 | 75 |
| Wholesale Share | | | | | |
| United States | 77 % | 76 % | 76 % | 76 % | 76 % |
| Canada | 64 | 64 | 61 | 61 | 59 |
| **Contract Placement Volume - New and Used Retail / Lease (000)** | | | | | |
| United States | 1,231 | 1,342 | 1,159 | 1,119 | 1,151 |
| Canada | 149 | 160 | 181 | 184 | 168 |
| Mexico | 25 | 26 | 47 | 40 | 33 |
| Total Americas Segment | 1,405 | 1,528 | 1,387 | 1,343 | 1,352 |

In 2018, U.S. retail and lease share and total contract placement volume were up compared to a year ago, primarily reflecting changes in Ford's marketing programs.

The following chart shows Europe's retail installment and lease share of new Ford-brand vehicles sold and wholesale financing share of new Ford-brand vehicles acquired by dealers. Also shown is Europe's consumer financing contract placement volume for new and used vehicles. All data is for the years ended December 31:

## Europe Financing Shares And Contract Placement Volume

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Financing Shares (incl. Fleet) (%) | | | | | |
| Retail Installment and Lease Share of Total Ford Sales | | | | | |
| U.K. | 40 % | 40 % | 38 % | 35 % | 37 % |
| Germany | 48 | 48 | 47 | 48 | 48 |
| Total Europe Segment | 36 | 37 | 37 | 37 | 38 |
| Wholesale Share | | | | | |
| U.K. | 100 % | 100 % | 100 % | 100 % | 100 % |
| Germany | 92 | 93 | 93 | 94 | 93 |
| Total Europe Segment | 98 | 98 | 98 | 98 | 98 |
| Contract Placement Volume - New and Used Retail / Lease (000) | | | | | |
| U.K. | 195 | 207 | 201 | 174 | 150 |
| Germany | 135 | 140 | 149 | 155 | 160 |
| All Other | 130 | 158 | 177 | 212 | 231 |
| Total Europe Segment | 460 | 505 | 527 | 541 | 541 |

In 2018, Europe Segment financing share was about equal to a year ago and total contract placement volume was consistent with a year ago.

The following chart shows Asia Pacific's retail installment share of new Ford and Lincoln brand vehicles sold by dealers and wholesale financing share of new Ford and Lincoln brand vehicles acquired by dealers. Also shown is Asia Pacific's consumer financing contract placement volume for new and used vehicles. All data is for the years ended December 31:

## Asia Pacific Financing Shares And Contract Placement Volume

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Financing Shares (incl. Fleet) (%)** | | | | | |
| Retail Installment Share of Total Ford Sales | | | | | |
| China | 13 % | 12 % | 19 % | 28 % | 35 % |
| India | - | 1 | 5 | 10 | 8 |
| Wholesale Share | | | | | |
| China | 62 % | 56 % | 58 % | 57 % | 63 % |
| India | - | 14 | 29 | 36 | 37 |
| **Contract Placement Volume - New and Used Retail (000)** | | | | | |
| China | 109 | 108 | 192 | 256 | 170 |
| India | - | - | 5 | 9 | 8 |
| Total Asia Pacific Segment | 109 | 108 | 197 | 265 | 178 |

In 2018, Asia Pacific Segment total contract placement volume was down 33% compared with a year ago driven primarily by lower Ford sales volume in China.

## Financial Condition

*Finance Receivables and Operating Leases*

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

| | For the Years Ended December 31, | | |
|---|---|---|---|
| **Net Receivables** | 2016 | 2017 | **2018** |
| Americas Segment | | | |
| Consumer financing | $ 51.2 | $ 55.1 | **$ 56.5** |
| Non-Consumer financing | 28.9 | 29.8 | **32.1** |
| Net Investment In operating leases | 26.9 | 26.4 | **27.0** |
| Total Americas Segment | $ 107.0 | $ 111.3 | **$ 115.6** |
| Europe Segment | | | |
| Consumer financing | $ 10.8 | $ 15.0 | **$ 15.5** |
| Non-Consumer financing | 7.4 | 9.2 | **9.6** |
| Net Investment In operating leases | 0.3 | 0.3 | **0.4** |
| Total Europe Segment | $ 18.5 | $ 24.5 | **$ 25.5** |
| Asia Pacific Segment | | | |
| Consumer financing | $ 2.9 | $ 4.5 | **$ 3.8** |
| Non-Consumer financing | 1.8 | 2.4 | **1.4** |
| Net Investment In operating leases | — | — | **—** |
| Total Asia Pacific Segment | $ 4.7 | $ 6.9 | **$ 5.2** |
| Total net receivables | $ 130.2 | $ 142.7 | **$ 146.3** |
| | | | |
| **Managed Receivables** | | | |
| Total net receivables (GAAP) | $ 130.2 | $ 142.7 | **$ 146.3** |
| Unearned interest supplements and residual support | 5.3 | 6.1 | **6.8** |
| Allowance for credit losses | 0.5 | 0.7 | **0.7** |
| Other, primarily accumulated supplemental depreciation | 0.9 | 1.0 | **1.1** |
| Total managed receivables (Non-GAAP) | $ 136.9 | $ 150.5 | **$ 154.9** |

Our operating lease portfolio is prudently managed and was 19% of total net receivables at December 31, 2018. Leasing is an important product, and our leasing strategy balances sales, share, residuals, and long-term profitability. Operating leases in the U.S. and Canada represent 99% of our total operating lease portfolio.

At December 31, 2016, 2017, and 2018, net receivables includes consumer receivables before allowance for credit losses of $32.5 billion, $38.9 billion, and $40.7 billion, respectively, and non-consumer receivables before allowance for credit losses of $26.0 billion, $24.5 billion, and $25.7 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, 2016, 2017, and 2018, net receivables includes net investment in operating leases before allowance for credit losses of $11.8 billion, $11.5 billion, and $16.3 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 Ford Credit's other creditors. 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. For additional information on our securitization transactions, refer to the "Securitization Transactions" and "On-Balance Sheet Arrangements" sections and Note 7 of our Notes to the Financial Statements.

**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 actively manage the credit risk of our consumer (retail financing and operating lease) and non-consumer (dealer financing) receivables to balance our level of risk and return using our consistent underwriting standards, effective proprietary scoring system, and world-class servicing. The allowance for credit losses (also referred to as the credit loss reserve) represents our estimate of the probable credit losses inherent in our finance receivables and operating leases 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, and receivable levels. 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.

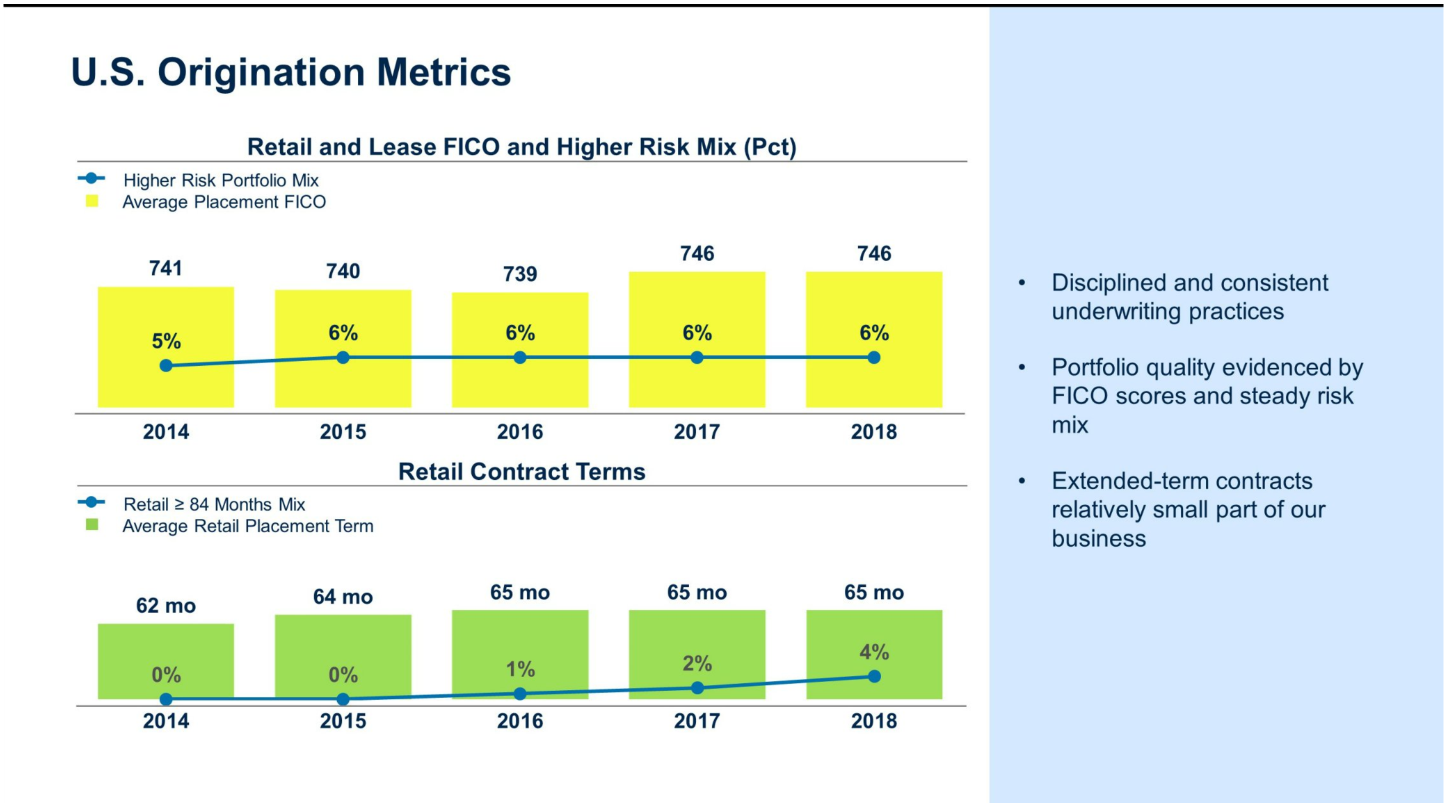
Most of our charge-offs are related to retail finance and operating lease contracts. Charge-offs are affected by the number of vehicle repossessions, the unpaid balance outstanding at the time of repossession, the auction price of repossessed vehicles, and other charge-offs. We also incur credit losses on our dealer financing, but default rates for these receivables historically have been substantially lower than those for retail finance and operating lease contracts. For additional information on severity, refer to the "Critical Accounting Estimates - Allowance for Credit Losses" section.

In purchasing retail finance and operating lease contracts, we use a proprietary scoring system that measures credit quality using information in 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 creditworthiness focusing 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 the quality of our receivables, see Note 4 of our Notes to the Financial Statements.

*U.S. Origination Metrics*

We support customers across the credit spectrum. Our higher risk business, as classified at contract inception, consistently represents 5-6% of our portfolio and has been stable for over 10 years.

The following charts show annual trends for FICO, higher risk mix, and retail contract terms:



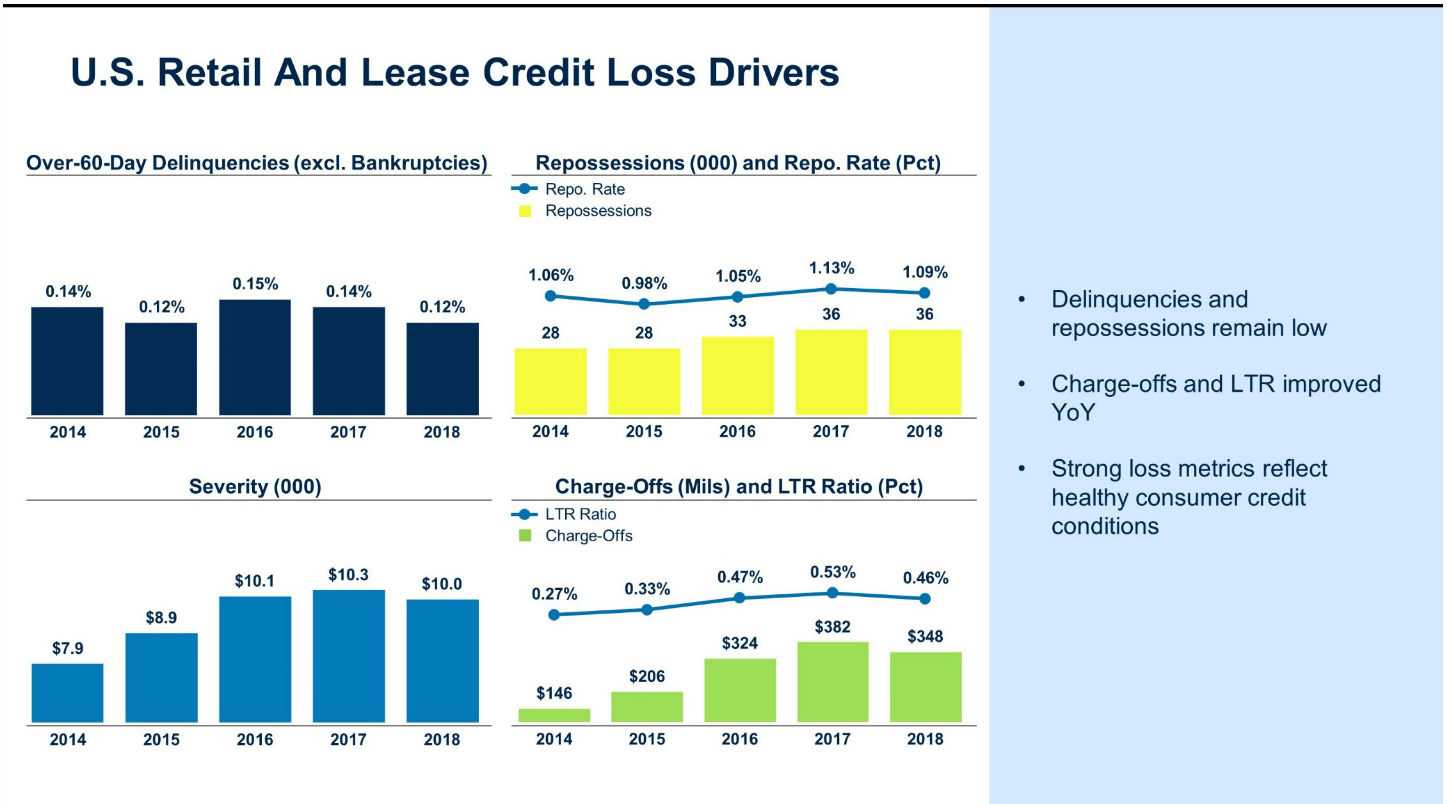

The 2018 average placement FICO score remained strong.

In 2018, our average retail placement term was unchanged from a year ago, and retail contracts of 84 months and longer continued to be a relatively small part of our business. Ford Credit remains 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.

*U.S. Credit Losses*

The following charts show the primary drivers of credit losses in the U.S. retail and lease business, which comprised 69% of our worldwide consumer portfolio at December 31, 2018. Loss-to-Receivables ("LTR") ratios are charge-offs divided by average managed receivables:



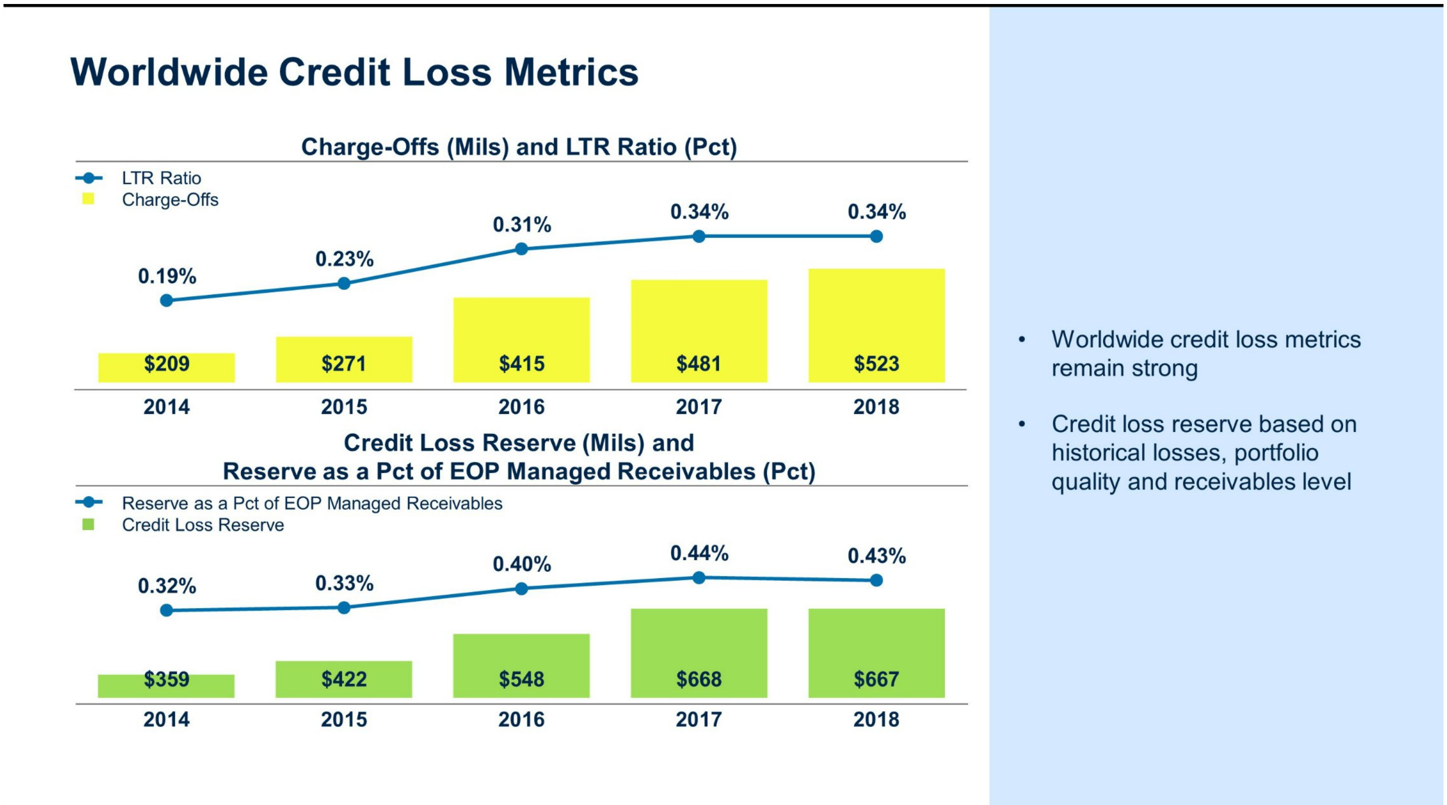

Compared with a year ago, both delinquencies and the repossession rate have improved. Severity has improved year-over-year reflecting longer average time to repossession and lower principal outstanding at repossession.

Our 2018 charge-offs and LTR ratio improved compared with the prior year.

Credit loss metrics remain strong reflecting a healthy business environment and consumer credit conditions.

*Worldwide Credit Losses*

The following charts show annual trends of charge-offs (credit losses, net of recoveries), LTR ratios, credit loss reserve, and our credit loss reserve as a percentage of end-of-period ("EOP") managed receivables:




Our worldwide credit loss metrics remain strong. The worldwide LTR ratio in 2018 was equal to a year ago.

Our credit loss reserve is based on such factors as historical loss performance, portfolio quality, and receivables level. The credit loss reserve as of December 31, 2018 was about the same as at December 31, 2017.

The reserve as a percent of managed receivables was slightly lower than a year ago.

## Residual Risk

Leasing is an important product that many customers want and value, and 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. 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 by evaluating recent auction values, return volumes for our leased vehicles, industrywide used vehicle prices, marketing incentive plans, and vehicle quality data. 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 "Net Investment in Operating Leases".

*Americas Retail Operating Lease Experience*

The United States and Canada markets within our Americas segment accounted for 99% of Ford Credit's total operating leases at December 31, 2018. The following table shows operating lease placement, termination, and return volumes for this segment for the years ended December 31 (in thousands, except for percentages):

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| Placements (a) | 445 | 418 | 433 |
| Terminations (b) | 358 | 405 | 407 |
| Returns (c) | 255 | 301 | 295 |
| Memo: | | | |
| Return rates | 71% | 74% | 72% |

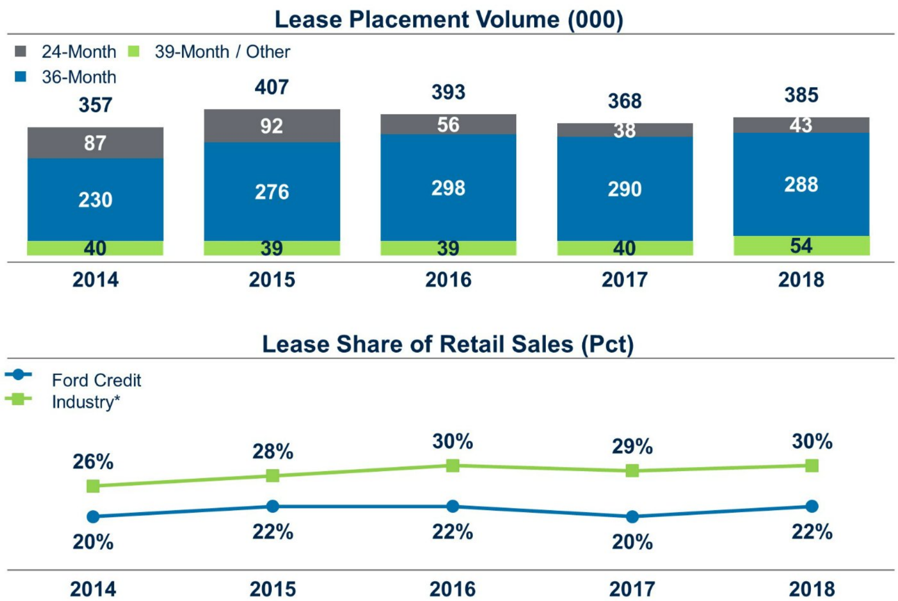
(a) Placement volume measures the number of leases we purchase in a given period.
(b) Termination volume measures the number of vehicles for which the lease has ended in a given period.
(c) Return volume reflects the number of vehicles returned to us by customers at lease end.

In 2018, placement volume was up about 15,000 units compared with 2017, primarily reflecting changes in Ford's marketing programs. Termination volume increased by about 2,000 units compared with 2017, reflecting higher lease placements in prior years. Return volume decreased about 6,000 units compared with 2017, reflecting decreased return rates.

*U.S. Ford and Lincoln Brand Operating Lease Experience*

The following charts show lease placement volume and lease share of Ford and Lincoln brand retail sales for vehicles in the respective periods.  The U.S. operating lease portfolio accounted for 87% of our total net investment in operating leases at December 31, 2018.

## U.S. Lease Origination Metrics



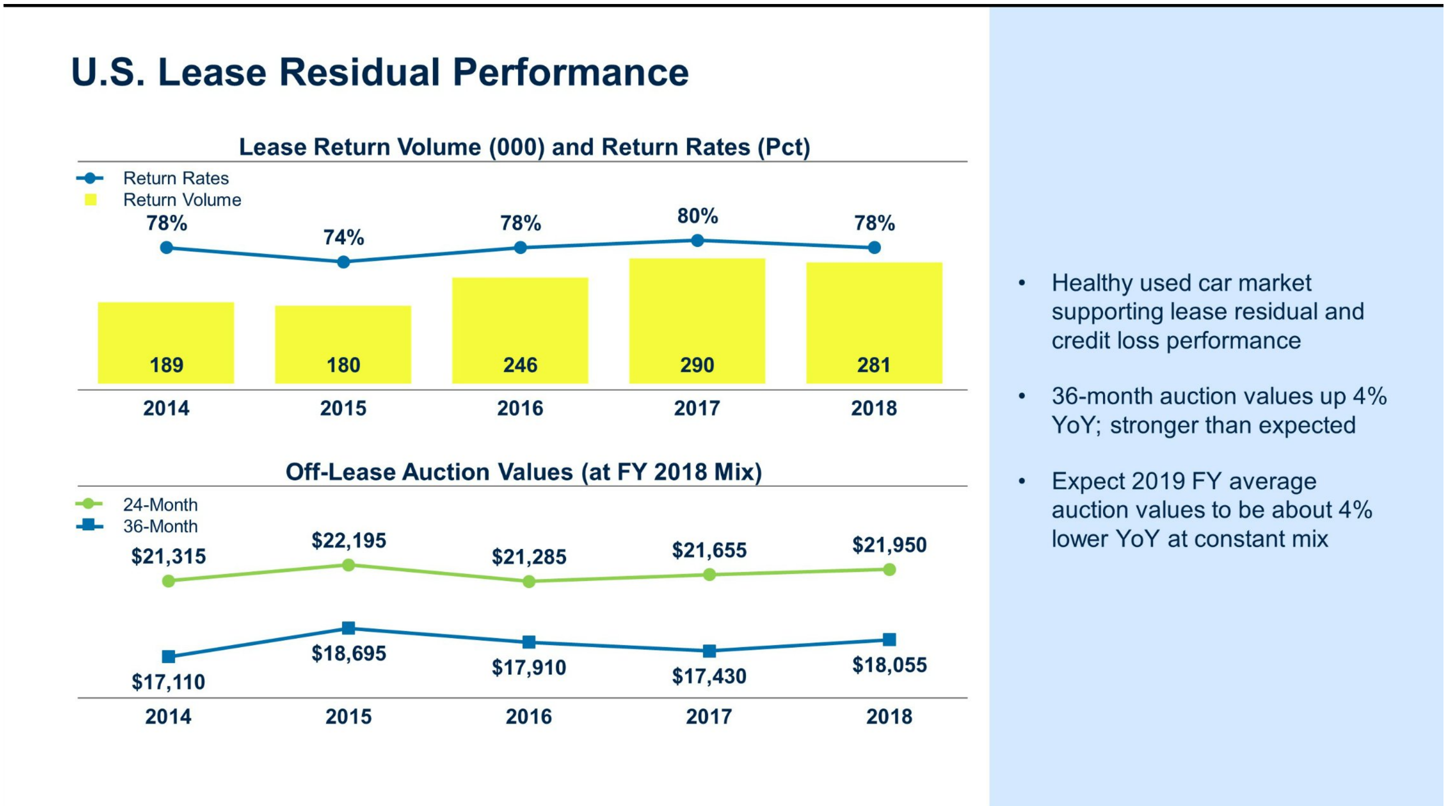

* Source: J.D. Power PIN

- Lease share continues to be below industry reflecting Ford sales mix

Our 2018 lease placement volume was up compared with a year ago, reflecting Ford's marketing programs.

Industry lease share in 2018 was up compared with a year ago.  Ford Credit's lease share was up compared with a year ago and remains below the industry, reflecting the Ford sales mix.

The following charts show lease return volumes and auction values at incurred vehicle mix for vehicles returned in the respective periods:




Lease return volume and the return rate in 2018 were down from the prior year. Our 2018 24-month and 36-month off-lease auction values were higher compared with a year ago.

We expect full-year 2019 off-lease 36-month auction values to be about 4% lower compared with 2018 at constant mix.

**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 U.S. Securities and Exchange Commission: 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, 2018.

The following chart 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 | R-2M | Stable | BBB (low) |
| Fitch | BBB | F2 | Stable | BBB- |
| Moody's | Baa3 | P-3 | Negative | Baa3 |
| S&P | BBB | A-2 | Negative | BBB- |

## Funding and Liquidity

Our primary funding objective is to be well capitalized with a strong balance sheet and ample liquidity to support our financing activities and growth under a variety of market conditions, including short-term and long-term market disruptions.

Our funding strategy remains focused on diversification, and we plan to continue accessing a variety of markets, channels, and investors.

Our liquidity profile continues to be diverse, robust, and focused on maintaining liquidity levels that meet our business and funding requirements. We annually 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 in the United States and international capital markets. For additional information on our securitization transactions, refer to the “Securitization Transactions” section.

We obtain short-term unsecured funding from the sale of demand notes under our Ford Interest Advantage program, through the Retail Deposit program at FCE Bank plc (“FCE”), and by issuing unsecured commercial paper in the United States and other international markets. At December 31, 2018, 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 Deposits was $6 billion. At December 31, 2018, the principal amount outstanding of our unsecured commercial paper was $4 billion, which primarily represents issuance under our commercial paper program in the United States.

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. Spreads are typically measured in basis points. Our asset-backed funding and unsecured long-term debt costs are based on spreads over U.S. Treasury securities of similar maturities, a comparable London Interbank Offered Rate (“LIBOR”), or other comparable benchmark rates. The funding costs of our floating rate demand notes change depending on market conditions.

During 2018, the weighted average spread of the triple-A rated notes offered in our U.S. public retail securitization transactions ranged from 19 to 22 basis points over the relevant benchmark rates and our U.S. institutional unsecured long-term debt transaction spreads ranged from 81 to 169 basis points over the relevant benchmark rates.

*Funding Portfolio*

The following chart shows the trends in funding for our managed receivables:

## Funding Structure – Managed Receivables*
**(Bils)**

| | 2016 Dec 31 | 2017 Dec 31 | 2018 Dec 31 |
|---|---|---|---|
| Term Debt (incl. Bank Borrowings) | $ 66 | $ 75 | $ 70 |
| Term Asset-Backed Securities | 50 | 53 | 60 |
| Commercial Paper | 4 | 5 | 4 |
| Ford Interest Advantage / Deposits | 6 | 5 | 6 |
| Other | 9 | 9 | 10 |
| Equity | 13 | 16 | 15 |
| Adjustments For Cash | (11) | (12) | (10) |
| Total Managed Receivables | $ 137 | $ 151 | $ 155 |
| Securitized Funding as Pct of Managed Receivables | 37% | 35% | 39% |

* Reconciliation to GAAP provided in the Financial Condition section

- Funding is diversified across platforms and markets
- Well capitalized with a strong balance sheet and ample liquidity

Managed receivables of $155 billion as of December 31, 2018, were funded primarily with term debt and term asset-backed securities. Securitized funding as a percent of managed receivables was 39%.

We target a mix of securitized funding between 35% and 40%. The calendarization of the funding plan will result in quarterly fluctuations of the securitized funding percentage.

*Public Term Funding Plan*

The following chart shows our issuances for 2016, 2017, and 2018, and our planned issuances for 2019, excluding short-term funding programs:

## Public Term Funding Plan* (Bils)

| Unsecured -- Currency of issuance *(USD Equivalent)* | 2016 Actual | 2017 Actual | 2018 Actual | 2019 Forecast |
|---|---|---|---|---|
| USD | $ 9 | $ 10 | $ 6 | $ 9 - 12 |
| CAD | 1 | 2 | 1 | 1 - 2 |
| EUR / GBP | 3 | 3 | 4 | 3 - 4 |
| Other | 1 | 1 | 1 | 1 |
| Total unsecured | $ 14 | $ 16 | $ 13 | $ 14 - 19 |
| Securitizations | 13 | 15 | 14 | 13 - 15 |
| Total public | $ 28 | $ 32 | $ 27 | $ 27 - 33 |

* Numbers may not sum due to rounding

Our total unsecured public term funding plan is categorized by currency of issuance.

In 2018, we completed $27 billion of public term funding. For 2019, we project full-year public term funding in the range of $27 - $33 billion. We plan to continue issuing our eurocurrency-denominated (e.g., euro and sterling) public unsecured debt from the United States.

Through February 15, 2019, we have completed $4 billion of public term issuances.

*Liquidity Sources*

We define gross liquidity as cash, cash equivalents, and marketable securities (excluding amounts related to insurance activities) and committed capacity (which includes our credit and asset-backed facilities and bank lines), less utilization of liquidity. Utilization of liquidity is the amount funded under our liquidity sources and also includes the cash and cash equivalents required to support securitization transactions. Securitization cash is cash held for the benefit of the securitization investors (for example, a reserve fund). Net liquidity available for use is defined as gross liquidity less certain adjustments for asset-backed capacity in excess of eligible receivables and cash related to the Ford Credit Revolving Extended Variable-utilization program ("FordREV"), which can be accessed through future sales of receivables. While not included in available liquidity, these adjustments represent additional funding sources for future originations.

The following chart shows our liquidity sources and utilization:

## Liquidity Sources (Bils)

| | 2016 Dec 31 | 2017 Dec 31 | 2018 Dec 31 |
|---|---|---|---|
| **Liquidity Sources** | | | |
| Cash | $ 10.8 | $ 11.8 | $ 10.2 |
| Committed ABS facilities | 34.6 | 33.4 | 35.4 |
| Other unsecured credit facilities | 2.5 | 3.3 | 3.0 |
| Ford corporate credit facility allocation | 3.0 | 3.0 | 3.0 |
| Total liquidity sources | $ 50.9 | $ 51.5 | $ 51.6 |
| **Utilization of Liquidity** | | | |
| Securitization cash | $ (3.4) | $ (3.8) | $ (3.0) |
| Committed ABS facilities | (19.9) | (17.2) | (20.7) |
| Other unsecured credit facilities | (0.7) | (1.1) | (0.7) |
| Ford corporate credit facility allocation | - | - | - |
| Total utilization of liquidity | $ (24.0) | $ (22.1) | $ (24.4) |
| Gross liquidity | $ 26.9 | $ 29.4 | $ 27.2 |
| Adjustments | 0.1 | 0.1 | 0.1 |
| Net liquidity available for use | $ 27.0 | $ 29.5 | $ 27.3 |

Our liquidity available for use will fluctuate quarterly based on factors including near-term debt maturities, receivable growth, and timing of funding transactions. We target liquidity of about $25 billion.

At December 31, 2018, our liquidity available for use was $27.3 billion, $2.2 billion lower than year-end 2017. Our sources of liquidity include cash, committed asset-backed facilities, unsecured credit facilities, and the Ford corporate credit facility allocation. At December 31, 2018, our liquidity sources including cash totaled $51.6 billion, about the same as at year-end 2017.

*Cash, Cash Equivalents, and Marketable Securities.* At December 31, 2018, our cash, cash equivalents, and marketable securities (excluding amounts related to insurance activities) totaled $10.2 billion, compared with $11.8 billion at year-end 2017. 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, cash equivalents, and marketable securities (excluding amounts related to insurance activities) primarily include U.S. 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 approximately three 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, cash equivalents, and marketable securities included amounts to be used only to support our securitization transactions of $3.8 billion and $3.0 billion at December 31, 2017 and 2018, respectively.

*Committed Capacity.* At December 31, 2018, our committed capacity totaled $41.4 billion, compared with $39.7 billion at December 31, 2017. Our committed capacity is primarily comprised of committed ABS facilities from bank-sponsored commercial paper conduits and other financial institutions, unsecured credit facilities with financial institutions, and allocated commitments under the Ford corporate credit facility.

*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 receivables or to purchase or make advances under asset-backed securities backed by retail or wholesale finance receivables or operating leases for proceeds of up to $35.4 billion ($17.4 billion of retail financing, $6.0 billion of wholesale financing, and $12.0 billion of operating leases) at December 31, 2018. 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 $17.9 billion having maturities within the next twelve months and the remaining balance having maturities through 2020. We plan capacity renewals to protect our global funding needs, optimize capacity utilization, and maintain sufficient liquidity.

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, 2018, $20.7 billion of these commitments were in use. 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.

FCE has pre-positioned retail receivables with the Bank of England which supports access to the Discount Window Facility. Pre-positioned assets are neither pledged to nor held as collateral by the Bank of England unless the Discount Window Facility is accessed. FCE's eligibility to access the Discount Window Facility is not reflected in the Liquidity Sources table above.

*Unsecured Credit Facilities*. At December 31, 2018, we and our majority-owned subsidiaries had $6.0 billion of contractually committed unsecured credit facilities with financial institutions, including the FCE Credit Agreement, the Ford Bank Credit Agreement, and the allocation under Ford's corporate credit facility. At December 31, 2018, $5.3 billion was available for use.

FCE's £745 million (equivalent to $954 million at December 31, 2018) syndicated credit facility (the "FCE Credit Agreement") matures in 2021. At December 31, 2018, £505 million (equivalent to $646 million) was available for use. Ford Bank's €240 million (equivalent to $275 million at December 31, 2018) syndicated credit facility (the "Ford Bank Credit Agreement") matures in 2021. At December 31, 2018, all €240 million was available for use.

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.

Lenders under the Ford corporate credit facility have commitments totaling $13.4 billion, with 75% of the commitments maturing on April 30, 2023 and 25% of the commitments maturing on April 30, 2021. Ford has allocated $3.0 billion of commitments, including commitments under a Chinese renminbi sub-facility, to us on an irrevocable and exclusive basis to support our liquidity. At December 31, 2018, all $3.0 billion was available for use.

*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 market volatility;
- 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;
- Our ability to maintain credit facilities and committed asset-backed facilities; and
- Credit ratings assigned to us.

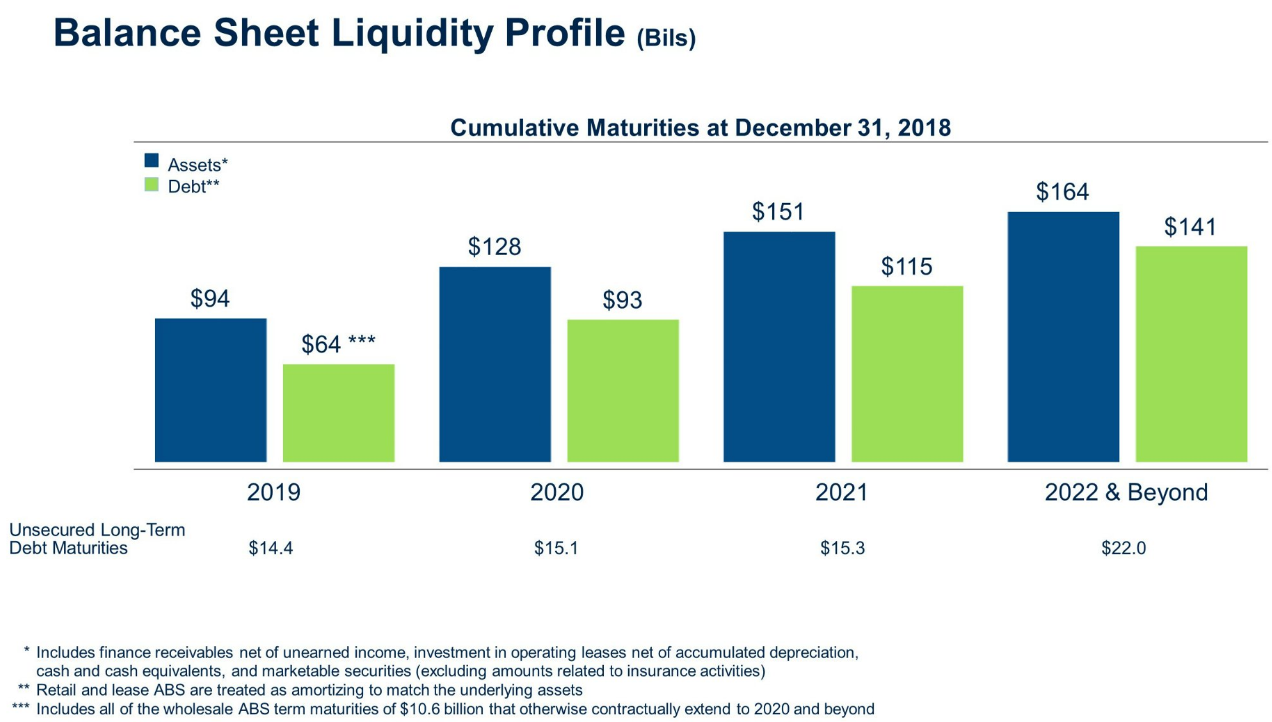
*Stress Tests*

We annually conduct stress testing on our funding and liquidity sources to ensure we can continue to meet our financial obligations and support the sale of Ford 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. We target a sufficient amount and composition of liquidity to withstand such stresses. 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.

*Balance Sheet Liquidity Profile*

We define our balance sheet liquidity profile as the cumulative maturities, including the impact of expected prepayments, 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 our liquidity stress test.

The following chart shows our cumulative maturities for the periods presented:




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. For additional information on maturities of finance receivables and debt, see Notes 4 and 11 of our Notes to the Financial Statements. Maturities of finance receivables and investment in operating leases in the chart above include expected prepayments for our retail installment sale contracts and investment in operating leases. The 2019 finance receivables maturities in the chart above also include all of the wholesale receivables maturities that are otherwise shown in Note 4 as extending beyond 2019. The chart above also reflects the following adjustments to debt maturities in Note 11 to match all of the asset-backed debt maturities with the underlying asset maturities:

- The 2019 maturities include all of the wholesale securitization transactions, even if the maturities extend beyond 2019; and
- Retail securitization transactions under certain committed asset-backed facilities are assumed to amortize immediately rather than amortizing after the expiration of the commitment period.

## 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 engage in other 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 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, the United Kingdom, Germany, 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. As a result, the securitized assets and related debt remain on our balance sheet 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, it is our preferred practice to satisfy the applicable eligibility criteria by randomly selecting the assets to be included in a particular securitization from our entire portfolio of assets.

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 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 be required 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 U.S. 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, and 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.
- *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.
- *Lease Facility Program*. If credit losses or delinquencies in our portfolio of retail 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.

## 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 sheet. 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 7 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):

| | 2017 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **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** | | | | | | |
| Americas Segment | | | | | | |
| Retail financing | $ 1.7 | $ 31.4 | $ 28.0 | $ 1.8 | $ 33.9 | $ 29.8 |
| Wholesale financing | 1.1 | 21.2 | 11.5 | 0.3 | 22.7 | 13.2 |
| Total Americas Segment | 2.8 | 52.6 | 39.5 | 2.1 | 56.6 | 43.0 |
| Europe Segment | | | | | | |
| Retail financing | 0.4 | 6.6 | 4.7 | 0.4 | 6.1 | 4.8 |
| Wholesale financing | 0.1 | 3.3 | 0.5 | — | 3.0 | 1.3 |
| Total Europe Segment | 0.5 | 9.9 | 5.2 | 0.4 | 9.1 | 6.1 |
| Asia Pacific Segment | | | | | | |
| Retail financing | — | 0.9 | 0.7 | — | 0.7 | 0.5 |
| Wholesale financing | — | — | — | — | — | — |
| Total Asia Pacific Segment | — | 0.9 | 0.7 | — | 0.7 | 0.5 |
| Total finance receivables | 3.3 | 63.4 | 45.4 | 2.5 | 66.4 | 49.6 |
| **Net investment in operating leases** | 0.5 | 11.5 | 7.2 | 0.5 | 16.3 | 10.2 |
| Total on-balance sheet arrangements | $ 3.8 | $ 74.9 | $ 52.6 | $ 3.0 | $ 82.7 | $ 59.8 |

__________
(a) 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 chart shows the calculation of our financial statement leverage and managed leverage:

## Leverage (Bils)

| | 2016 Dec 31 | 2017 Dec 31 | 2018 Dec 31 |
|---|---|---|---|
| Leverage Calculation | | | |
| Total debt | $ 126.5 | $ 137.8 | $ 140.1 |
| Adjustments for cash | (10.8) | (11.8) | (10.2) |
| Adjustments for derivative accounting | (0.3) | - | 0.2 |
| Total adjusted debt | $ 115.4 | $ 126.0 | $ 130.1 |
| Equity | $ 12.8 | $ 15.9 | $ 15.0 |
| Adjustments for derivative accounting | (0.3) | (0.1) | (0.2) |
| Total adjusted equity | $ 12.5 | $ 15.8 | $ 14.8 |
| Financial statement leverage (to 1) (GAAP) | 9.9 | 8.7 | 9.4 |
| Managed leverage (to 1) (Non-GAAP) | 9.2 | 8.0 | 8.8 |

We believe that managed leverage is useful to our investors because it reflects the way we manage our business. We deduct cash, cash equivalents, and marketable securities (excluding amounts related to insurance activities) because they generally correspond to excess debt beyond the amount required to support our operations and amounts to support on-balance sheet securitization transactions. We make derivative accounting adjustments to our assets, debt, and equity positions to reflect the impact of interest rate instruments we use in connection with our term-debt issuances and securitization transactions. The derivative accounting adjustments related to these instruments vary over the term of the underlying debt and securitized funding obligations based on changes in market interest rates. We generally repay our debt obligations as they mature. As a result, we exclude the impact of these derivative accounting adjustments on both the numerator and denominator in order to exclude the interim effects of changes in market interest rates. For additional information on our use of interest rate instruments and other derivatives, refer to Item 7A.

We plan our managed leverage by considering prevailing market conditions and the risk characteristics of our business. At December 31, 2018, our financial statement leverage was 9.4:1, and managed leverage was 8.8:1. We target managed leverage in the range of 8:1 to 9:1.

## Aggregate Contractual Obligations

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 sheet 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, 2018 are shown below (in millions):

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | 2019 | 2020 - 2021 | 2022 - 2023 | 2024 and Thereafter | Total |
| Long-term debt (a) | $ 36,503 | $ 57,230 | $ 21,320 | $ 10,703 | $ 125,756 |
| Interest payments relating to long-term debt | 3,189 | 3,775 | 1,438 | 814 | 9,216 |
| Operating lease | 19 | 25 | 19 | 34 | 97 |
| Purchase obligations | 33 | 44 | 29 | 3 | 109 |
| Total | $ 39,744 | $ 61,074 | $ 22,806 | $ 11,554 | $ 135,178 |

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

Liabilities recognized for unrecognized tax benefits of $115 million are excluded from the table above. Due to the high degree of uncertainty regarding the timing of future cash flows associated with income tax liabilities, we are unable to make a reasonably reliable estimate of the amount and period of payment. For additional information on income taxes, see Note 12 of our Notes to the Financial Statements.

For additional information on our long-term debt and operating lease obligations, see Notes 11 and 19, respectively, of our Notes to the Financial Statements.

## 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, and these audit committees have reviewed these estimates and disclosures.

*Allowance for Credit Losses*

The allowance for credit losses represents our estimate of the probable credit loss inherent in finance receivables and operating leases 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. For additional information regarding our allowance for credit losses, see Note 6 of our Notes to the Financial Statements.

*Nature of Estimates Required.* We estimate the probable credit losses inherent in finance receivables and operating leases based on several factors.

*Consumer Portfolio.* We estimate the allowance for credit losses on consumer receivables and on operating leases using a combination of measurement models and management judgment. The models consider factors such as historical trends in credit losses and recoveries (including key metrics such as delinquencies, repossessions, and bankruptcies), the composition of the present portfolio (including vehicle brand, term, risk evaluation, and new/used vehicles), trends in historical used vehicle values, and economic conditions. Estimates from these models rely on historical information and may not fully reflect losses inherent in the present portfolio. Therefore, we may adjust the estimate to reflect management judgment regarding observable changes in recent economic trends and conditions, portfolio composition, and other relevant factors.

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

- *Frequency.* The number of finance receivables and operating lease contracts that are expected to default over the loss emergence period ("LEP"), measured as repossessions; repossession ratio reflects the number of finance receivables and operating lease contracts that we expect will default over a period of time divided by the average number of contracts outstanding; and
- *Loss severity.* 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.

*Collective Allowance for Credit Losses.* The collective allowance is evaluated primarily using a collective LTR model that, based on historical experience, indicates credit losses have been incurred in the portfolio even though the particular accounts that are uncollectible cannot be specifically identified. The LTR model is based on the most recent years of history. An LTR for each product is calculated by dividing credit losses (i.e., charge-offs net of recoveries) by average net finance receivables or average net investment in operating leases, excluding unearned interest supplements and residual support, allowance for credit losses, and other (primarily accumulated supplemental depreciation). The average LTR that is calculated for each product is multiplied by the end-of-period balances for that given product.

Our largest markets also use a loss projection model to estimate losses inherent in the portfolio. The loss projection model applies recent monthly performance metrics, stratified by contract type (retail or lease), contract term (e.g., 60-month), and risk rating to our active portfolio to estimate the losses that have been incurred.

The LEP is an assumption within our models and represents the average amount of time between when a loss event first occurs to when it is charged off. This time period starts when the consumer begins to experience financial difficulty. It is evidenced, typically through delinquency, before eventually resulting in a charge-off. The LEP is a multiplier in the calculation of the collective consumer allowance for credit losses.

For accounts greater than 120 days past due, the uncollectible portion is charged off, such that the remaining recorded investment is equal to the estimated fair value of the collateral less costs to sell.

*Specific Allowance for Impaired Receivables.* Consumer receivables involved in Troubled Debt Restructurings are specifically assessed for impairment. A specific allowance is estimated based on the present value of the expected future cash flows of the receivable discounted at the contract's original effective interest rate or the fair value of any collateral adjusted for estimated costs to sell.

After establishing the collective and specific allowance for credit losses, if management believes the allowance does not reflect all losses inherent in the portfolio due to changes in recent economic trends and conditions, or other relevant factors, an adjustment is made based on management judgment.

*Sensitivity Analysis.* Changes in the assumptions used to derive frequency and severity would affect the allowance for credit losses. The effect of the indicated increase/decrease in the assumptions for our U.S. Ford and Lincoln brand retail financing and operating lease portfolio is as follows (in millions):

| **Assumption** | **Basis Point Change** | **Increase / (Decrease)** |
|---|---|---|
| Frequency - repossession ratio | + / - 10 bps | $36 / ($36) |
| Loss severity per unit | + / - 100 | 4 / (4) |

*Non-Consumer Portfolio.* We estimate the allowance for credit losses for non-consumer receivables based on historical LTR ratios, expected future cash flows, and the fair value of collateral.

*Collective Allowance for Credit Losses.* We estimate an allowance for non-consumer receivables that are not specifically identified as impaired using an LTR model for each financing product based on historical experience. This LTR is an average of the most recent historical experience and is calculated consistent with the consumer receivables LTR approach. All accounts that are specifically identified as impaired are excluded from the calculation of the non-specific or collective allowance.

*Specific Allowance for Impaired Receivables.* Dealer financing is evaluated by segmenting individual loans by the risk characteristics of the loan (such as the amount of the loan, the nature of the collateral, and the financial status of the debtor). The loans are analyzed to determine whether individual loans are impaired, and a specific allowance is estimated based on the present value of the expected future cash flows of the receivable discounted at the loan's original effective interest rate or the fair value of the collateral adjusted for estimated costs to sell.

After establishing the collective and specific allowance for credit losses, if management believes the allowance does not reflect all losses inherent in the portfolio due to changes in recent economic trends and conditions, or other relevant factors, an adjustment is made based on management judgment.

Changes in our assumptions affect the *Provision for credit losses* on our income statement and the allowance for credit losses contained within *Finance receivables, net* and *Net investment in operating leases* on our balance sheet.

*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. For additional information on net investment in operating leases, including the amount of accumulated depreciation, see Note 5 of our Notes to the Financial Statements.

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. Such 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.

Each lease customer has 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.

*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.

*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. The effect of the indicated increase/decrease in the assumptions for our U.S. Ford and Lincoln brand operating lease portfolio is as follows (in millions):

| Assumption | Basis Point Change | Increase / (Decrease) |
|---|---|---|
| Future auction values | + / - 100 bps | $(128) / $128 |
| Return volumes | + / - 100 | 18 / (18) |

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

## Accounting Standards Issued But Not Yet Adopted

The Financial Accounting Standards Board ("FASB") has issued the following Account Standards Updates ("ASU"), which are not expected to have a significant change in practice and / or have a significant financial impact (with the exception of those standards further discussed in Note 2) to our financial statements or financial statement disclosures.

| Standard | | Effective Date (a) |
|---|---|---|
| 2018-16 | Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes | January 1, 2019 |
| 2018-08 | Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made | January 1, 2019 |
| 2018-02 | Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income | January 1, 2019 |
| 2016-02 | Leases | January 1, 2019 (b) |
| 2018-18 | Clarifying the interaction between Collaborative Arrangements and Revenue From Contracts With Customers | January 1, 2020 |
| 2018-17 | Targeting Improvements to Related Party Guidance for Variable Interest Entities | January 1, 2020 |
| 2018-15 | Customer's Accounting for Implementation costs Incurred in a Cloud Computing Arrangement that is a Service Contract | January 1, 2020 |
| 2016-13 | Credit Losses - Measurement of Credit Losses on Financial Instruments | January 1, 2020 |

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(a) Early adoption for each of the standards is permitted.
(b) The FASB has issued the following updates to the Leases standard: ASU 2018-01 (Land Easement Practical Expedient for Transition to Leases) and ASU 2018-11 (Targeted Improvements to Leases), and ASU 2018-20 (Narrow-Scope Improvements for Lessors). which we will adopt with the new Leases standard effective January 1, 2019.

## Outlook

We expect full year 2019 EBT to be strong, but lower than 2018, reflecting lower volume and financing margin, and higher operating costs.

**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 competitiveness depends on the successful execution of fitness actions;
- Industry sales volume, particularly in the United States, Europe, or China, can be volatile and could decline if there is a financial crisis, recession, or significant geopolitical event;
- Ford's new and existing products and mobility services are subject to market acceptance;
- Ford's results are dependent on sales of larger, more profitable vehicles, particularly in the United States;
- Ford may face increased price competition resulting from industry excess capacity, currency fluctuations, or other factors;
- Fluctuations in commodity prices, foreign currency exchange rates, and interest rates can have a significant effect on results;
- With a global footprint, Ford's results could be adversely affected by economic, geopolitical, protectionist trade policies, or other events, including Brexit;
- Ford's production, as well as Ford's suppliers' production, could be disrupted by labor disputes, natural or man-made disasters, financial distress, production difficulties, or other factors;
- Ford's ability to maintain a competitive cost structure could be affected by labor or other constraints;
- Pension and other postretirement liabilities could adversely affect Ford's liquidity and financial condition;
- Economic and demographic experience for pension and other postretirement benefit plans (e.g., discount rates or investment returns) could be worse than Ford has assumed;
- Ford's vehicles could be affected by defects that result in delays in new model launches, recall campaigns, or increased warranty costs;
- Ford may need to substantially modify its product plans to comply with safety, emissions, fuel economy, and other regulations that may change in the future;
- Ford could experience unusual or significant litigation, governmental investigations, or adverse publicity arising out of alleged defects in products, perceived environmental impacts, or otherwise;
- Ford's receipt of government incentives could be subject to reduction, termination, or clawback;
- Operational systems, security systems, and vehicles could be affected by cyber incidents;
- 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, 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;
- Ford Credit could face increased competition from banks, financial institutions, or other third parties seeking to increase their share of financing Ford vehicles; and
- Ford Credit could be subject to new or increased credit regulations, consumer or data 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 Items 1 and 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.

*Interest Rate Risk*

*Nature of Exposure.* Generally, our assets and the related debt have different re-pricing periods, and consequently, respond differently to changes in interest rates.

Our assets consist primarily of fixed-rate retail installment sale and operating lease contracts and floating-rate wholesale receivables. Fixed-rate retail installment sale and operating lease contracts generally require customers to make equal monthly payments over the life of the contract. Wholesale receivables are originated to finance new and used vehicles held in dealers' inventory and generally require dealers to pay a floating rate.

Debt consists primarily of short-term and long-term unsecured debt and securitization debt. In the case of unsecured term debt, to support our positive maturity profile, we may borrow at terms longer than the terms of our assets, in most instances with maturities up to ten years. These debt instruments are principally fixed-rate and require fixed and equal interest payments over the life of the instrument and a single principal payment at maturity.

*Risk Management.* Our interest rate risk management objective is to reduce volatility in our cash flows and volatility in our economic value from changes in interest rates based on an established risk tolerance that may vary by market. We use economic value sensitivity analysis and re-pricing gap analysis to evaluate potential long-term effects of changes in interest rates. We then enter into interest rate swaps to convert portions of our floating-rate debt to fixed or our fixed-rate debt to floating to ensure that our exposure falls within the established tolerances. We also use pre-tax cash flow sensitivity analysis to monitor the level of near-term cash flow exposure. The pre-tax cash flow sensitivity analysis measures the changes in expected cash flows associated with our interest-rate-sensitive assets, liabilities, and derivative financial instruments from hypothetical changes in interest rates over a twelve-month horizon. The ALCO reviews the re-pricing mismatch and exposure every month and approves interest rate swaps required to maintain exposure within approved thresholds prior to execution.

*Quantitative Disclosure.* To provide a quantitative measure of the sensitivity of our pre-tax cash flow to changes in interest rates, we use interest rate scenarios that assume a hypothetical, instantaneous increase or decrease of one percentage point in all interest rates across all maturities (a "parallel shift"), as well as a base case that assumes that all interest rates remain constant at existing levels. In reality, interest rate changes are rarely instantaneous or parallel and rates could move more or less than the one percentage point assumed in our analysis. As a result, the actual impact to pre-tax cash flow could be higher or lower than the results detailed in the table below. These interest rate scenarios are purely hypothetical and do not represent our view of future interest rate movements.

Under these interest rate scenarios, we expect more assets than debt and liabilities to re-price in the next twelve months. Other things being equal, this means that during a period of rising interest rates, the interest earned on our assets will increase more than the interest paid on our debt, thereby initially increasing our pre-tax cash flow. During a period of falling interest rates, we would expect our pre-tax cash flow to initially decrease. Our pre-tax cash flow sensitivity to interest rate movement is highlighted in the table below.

Our pre-tax cash flow sensitivity at December 31 was as follows (in millions):

| **Pre-Tax Cash Flow Sensitivity** | **2017** | **2018** |
|---|---|---|
| One percentage point instantaneous *increase* in interest rates | $ 14 | $ 51 |
| One percentage point instantaneous *decrease* in interest rates (a) | (14) | (51) |

(a) Pre-tax cash flow sensitivity given a one percentage point decrease in interest rates requires an assumption of negative interest rates in markets where existing interest rates are below one percent.

*Additional Model Assumptions.* While the sensitivity analysis presented is our best estimate of the impacts of the specified assumed interest rate scenarios, our actual results could differ from those projected. The model we use 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, replacement of maturing derivatives, exercise of options embedded in debt and derivatives, and predicted repayment of retail installment sale and lease contracts ahead of contractual maturity. Our repayment projections ahead of contractual maturity are based on historical experience. If interest rates or other factors change, our actual prepayment experience could be different than projected.

*Currency Exchange Rate Risk*

Our policy is to minimize exposure to changes in currency exchange rates. To meet funding objectives, we borrow in a variety of currencies, principally U.S. dollars, Canadian dollars, euros, pound sterling, and renminbi. We face exposure to currency exchange rates if a mismatch exists between the currency of our receivables and the currency of the debt funding those receivables. When possible, we fund receivables with debt in the same currency, minimizing exposure to exchange rate movements. When a different currency is used, we may use foreign currency swaps and foreign currency forwards to convert substantially all of our foreign currency debt obligations to the local country currency of the receivables. As a result of this policy, we believe our market risk exposure relating to changes in currency exchange rates at December 31, 2018 is insignificant.

*Derivative Notional Values*. The outstanding notional value of our derivatives at December 31 was as follows (in billions):

| | 2017 | 2018 |
|---|---|---|
| **Interest rate derivatives** | | |
| Pay-fixed, receive-floating, excluding securitization swaps | $ 20 | $ 28 |
| Pay-floating, receive-fixed, excluding securitization swaps | 41 | 44 |
| Securitization swaps | 28 | 28 |
| Total interest rate derivatives | 89 | 100 |
| | | |
| **Other derivatives** | | |
| Cross-currency swaps | 4 | 5 |
| Foreign currency forwards | 2 | 4 |
| Total notional value | $ 95 | $ 109 |

*Derivative Fair Values*. The net fair value of our derivative financial instruments at December 31, 2017 was an asset of $625 million, compared to an asset of $7 million at December 31, 2018.

For additional information regarding our derivatives, see Note 9 of our Notes to the Financial Statements.

**Counterparty Risk**

Counterparty risk relates to the loss we could incur if an obligor or counterparty defaulted on an investment or a derivative contract. We enter into master agreements with counterparties that allow netting of certain exposures in order to manage this risk. Exposures primarily relate to investments in fixed income instruments and derivative contracts used for managing interest rate and foreign currency exchange rate risk. We, together with Ford, establish exposure limits for each counterparty to minimize risk and provide counterparty diversification.

Our approach to managing counterparty risk is forward-looking and proactive, allowing us to take risk mitigation actions before risks become losses. Exposure limits are established based on our overall risk tolerance, which is calculated from counterparty credit ratings and market-based credit default swap (“CDS”) spreads. The exposure limits are lower for smaller and lower-rated counterparties, counterparties that have relatively higher CDS spreads, and for longer-dated exposures. Our exposures are monitored on a regular basis and are included in periodic reports to Ford’s Treasurer and our Chief Financial Officer.

Substantially all of our counterparty exposures are with counterparties that have an investment grade rating. Investment grade is our guideline for minimum counterparty long-term ratings. For additional information on our derivatives, see Note 9 of our Notes to the Financial Statements.

**Operating Risk**

We operate in many locations and rely on the abilities of our employees and computer systems to process a large number of transactions. Improper employee actions, improper operation of systems, or unforeseen business interruptions could result in financial loss, regulatory action and damage to our reputation, and breach of contractual obligations. To address this risk, we maintain internal control processes that identify transaction authorization requirements, safeguard assets from misuse or theft, protect the reliability of financial and other data, and minimize the impact of a business interruption on our customers. We also maintain system controls to maintain the accuracy of information about our operations. These controls are designed to manage operating risk throughout our operation.

**ITEM 8. *Financial Statements and Supplementary Data.***

Our Consolidated Financial Statements, the accompanying Notes, and the Report of Independent Registered Public Accounting Firm that are filed as part of this Report are listed under "Item 15. Exhibits and Financial Statement Schedules" and are set forth beginning on page FC-1 immediately following the signature pages of this Report.

Selected quarterly financial data for 2017 and 2018 are provided in Note 18 of our Notes to the Financial Statements.

**ITEM 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

**ITEM 9A.** ***Controls and Procedures.***

*Evaluation of Disclosure Controls and Procedures.* David W. McClelland, our President and Chief Executive Officer ("CEO"), and Brian E. Schaaf, our Chief Financial Officer ("CFO") and Treasurer, have performed an evaluation of the Company's disclosure controls and procedures, as that term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of December 31, 2018, and each has concluded that such disclosure controls and procedures are effective to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by SEC rules and forms, and that such information is accumulated and communicated to the CEO and CFO to allow timely decisions regarding required disclosures.

*Management's Report on Internal Control Over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2018. The assessment was based on criteria established in the framework *Internal Control - Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2018.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2018, has been audited by PricewaterhouseCoopers LLP ("PwC"), an independent registered public accounting firm, as stated in its report which appears herein.

*Changes in Internal Control Over Financial Reporting*. There were no changes in internal control over financial reporting during the fourth quarter of 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B.** ***Other Information.***

None.

## PART III

### ITEM 10. *Directors, Executive Officers and Corporate Governance.*

Not required.

### ITEM 11. *Executive Compensation.*

Not required.

### ITEM 12. *Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.*

Not required.

### ITEM 13. *Certain Relationships and Related Transactions, and Director Independence.*

Not required.

### ITEM 14. *Principal Accounting Fees and Services.*

Our principal accounting fees and services for the years ended December 31 were as follows (in millions):

| Nature of Services | 2017 | 2018 |
|---|---|---|
| *Audit fees* - for audit of the financial statements included in our Annual Report on Form 10-K, reviews of the financial statements included in our quarterly reports on Form 10-Q, attestation of the effectiveness of the Company's internal controls over financial reporting, preparation of statutory audit reports, and providing comfort letters in connection with our funding transactions | $ 11.5 | $ 12.1 |
| *Audit-related fees* - for support of funding transactions, due diligence for mergers, acquisitions and divestitures, attestation services, internal control reviews, and assistance with interpretation of accounting standards | 2.4 | 2.2 |
| *Tax fees* - for tax compliance and the preparation of tax returns, tax consultation, planning and implementation services, assistance in connection with tax audits, and tax advice related to mergers, acquisitions and divestitures | 0.6 | 0.5 |
| *All other fees* - for support in business and regulatory reviews and research analysis regarding new strategies | — | — |
| Total fees | $ 14.5 | $ 14.8 |

*Pre-Approval Policies and Procedures*

Ford’s audit committee has established pre-approval policies and procedures that govern the engagement of PwC, and the services provided by PwC to Ford Credit are pre-approved in accordance with Ford’s policies and procedures. The policies and procedures are detailed as to the particular services and our audit committee is informed of the services provided to us by PwC, including the audit fee requests for these services that have been submitted to and approved by Ford’s audit committee. The pre-approval policies and procedures do not include delegation of the Ford or Ford Credit audit committees’ responsibilities under the Exchange Act to management.

## PART IV

**ITEM 15.** ***Exhibits and Financial Statement Schedules.***

**(a) 1. Financial Statements**

Report of Independent Registered Public Accounting Firm

Ford Motor Credit Company LLC and Subsidiaries

- Consolidated Income Statement for the Years Ended December 31, 2016, 2017, and 2018
- Consolidated Statement of Comprehensive Income for the Years Ended December 31, 2016, 2017, and 2018
- Consolidated Balance Sheet at December 31, 2017 and 2018
- Consolidated Statement of Shareholder's Interest for the Years Ended December 31, 2016, 2017, and 2018
- Consolidated Statement of Cash Flows for the Years Ended December 31, 2016, 2017, and 2018
- Notes to the Financial Statements

The Report of Independent Registered Public Accounting Firm, Consolidated Financial Statements, and the Notes to the Financial Statements listed above are filed as part of this Report and are set forth beginning on page FC-1 immediately following the signature pages of this Report.

**(a) 2. Consolidated Financial Statement Schedules**

Schedules have been omitted because they are not applicable, the information required to be contained in them is disclosed elsewhere in the Financial Statements, or the amounts involved are not sufficient to require submission.

### (a) 3. Exhibits

| Designation | Description | Method of Filing |
|---|---|---|
| Exhibit 3-A | Certificate of Formation of Ford Motor Credit Company LLC. | Filed as Exhibit 99.3 to Ford Motor Credit Company LLC Current Report on Form 8-K dated May 1, 2007 and incorporated herein by reference. File No. 1-6368. |
| Exhibit 3-B | Limited Liability Company Agreement of Ford Motor Credit Company LLC dated as of April 30, 2007. | Filed as Exhibit 99.4 to Ford Motor Credit Company LLC Current Report on Form 8-K dated May 1, 2007 and incorporated herein by reference. File No. 1-6368. |
| Exhibit 4-A | Form of Indenture dated as of February 1, 1985 between Ford Motor Credit Company and Manufacturers Hanover Trust Company relating to Unsecured Debt Securities. | Filed as Exhibit 4-A to Ford Motor Credit Company Registration Statement No. 2-95568 and incorporated herein by reference. |
| Exhibit 4-A-1 | Form of First Supplemental Indenture dated as of April 1, 1986 between Ford Motor Credit Company and Manufacturers Hanover Trust Company supplementing the Indenture designated as Exhibit 4-A. | Filed as Exhibit 4-B to Ford Motor Credit Company Current Report on Form 8-K dated April 29, 1986 and incorporated herein by reference. File No. 1-6368. |
| Exhibit 4-A-2 | Form of Second Supplemental Indenture dated as of September 1, 1986 between Ford Motor Credit Company and Manufacturers Hanover Trust Company supplementing the Indenture designated as Exhibit 4-A. | Filed as Exhibit 4-B to Ford Motor Credit Company Current Report on Form 8-K dated August 28, 1986 and incorporated herein by reference. File No. 1-6368. |
| Exhibit 4-A-3 | Form of Third Supplemental Indenture dated as of March 15, 1987 between Ford Motor Credit Company and Manufacturers Hanover Trust Company supplementing the Indenture designated as Exhibit 4-A. | Filed as Exhibit 4-E to Ford Motor Credit Company Registration Statement No. 33-12928 and incorporated herein by reference. |
| Exhibit 4-A-4 | Form of Fourth Supplemental Indenture dated as of April 15, 1988 between Ford Motor Credit Company and Manufacturers Hanover Trust Company supplementing the Indenture designated as Exhibit 4-A. | Filed as Exhibit 4-F to Post-Effective Amendment No. 1 to Ford Motor Credit Company Registration Statement No. 33-20081 and incorporated herein by reference. |
| Exhibit 4-A-5 | Form of Fifth Supplemental Indenture dated as of September 1, 1990 between Ford Motor Credit Company and Manufacturers Hanover Trust Company supplementing the Indenture designated as Exhibit 4-A. | Filed as Exhibit 4-G to Ford Motor Credit Company Registration Statement No. 33-41060 and incorporated herein by reference. |
| Exhibit 4-A-6 | Form of Sixth Supplemental Indenture dated as of June 1, 1998 between Ford Motor Credit Company and The Chase Manhattan Bank supplementing the Indenture designated as Exhibit 4-A. | Filed as Exhibit 4.1 to Ford Motor Credit Company Current Report on Form 8-K dated June 15, 1998 and incorporated herein by reference. File No. 1-6368. |
| Exhibit 4-A-7 | Form of Seventh Supplemental Indenture dated as of January 15, 2002 between Ford Motor Credit Company and JPMorgan Chase Bank supplementing the Indenture designated as Exhibit 4-A. | Filed as Exhibit 4-I to Amendment No. 1 to Ford Motor Credit Company Registration Statement No. 333-75234 and incorporated herein by reference. |
| Exhibit 4-A-8 | Form of Eighth Supplemental Indenture dated as of June 5, 2006 between Ford Motor Credit Company and JPMorgan Chase Bank N.A. supplementing the Indenture designated as Exhibit 4-A. | Filed as Exhibit 4 to Ford Motor Credit Company Current Report on Form 8-K dated May 25, 2006 and incorporated herein by reference. File No. 1-6368. |
| Exhibit 4-A-9 | Form of Ninth Supplemental Indenture dated as of September 18, 2012 between Ford Motor Credit Company LLC and The Bank of New York Mellon supplementing the Indenture designated as Exhibit 4-A. | Filed as Exhibit 4 to Ford Motor Credit Company LLC Current Report on Form 8-K dated September 18, 2012 and incorporated herein by reference. File No. 1-6368. |
| Exhibit 4-B | Form of Indenture dated as of March 16, 2015 between Ford Motor Credit Company LLC and The Bank of New York Mellon relating to Unsecured Debt Securities. | Filed as Exhibit 4-A to Ford Motor Credit Company LLC Registration Statement No. 333-202789 and incorporated by reference herein. |
| Exhibit 10-A | Copy of Amended and Restated Relationship Agreement dated as of April 30, 2015 between Ford Motor Company and Ford Motor Credit Company LLC. | Filed as Exhibit 10 to Ford Motor Credit Company LLC Current Report on Form 8-K dated April 30, 2015 and incorporated herein by reference. File No. 1-6368. |
| Exhibit 10-B | Copy of Amended and Restated Support Agreement dated as of September 20, 2004 between Ford Motor Credit Company and FCE Bank plc. | Filed as Exhibit 10 to Ford Motor Credit Company Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference. File No. 1-6368. |
| Exhibit 10-C | Copy of Amended and Restated Tax Sharing Agreement dated as of December 12, 2006 between Ford Motor Credit Company and Ford Motor Company. | Filed as Exhibit 10.2 to Ford Motor Credit Company Current Report on Form 8-K dated December 12, 2006 and incorporated herein by reference. File No. 1-6368. |

| Designation | Description | Method of Filing |
|---|---|---|
| Exhibit 23 | Consent of Independent Registered Public Accounting Firm. | Filed with this Report. |
| Exhibit 24 | Powers of Attorney. | Filed with this Report. |
| Exhibit 31.1 | Rule 15d-14(a) Certification of CEO. | Filed with this Report. |
| Exhibit 31.2 | Rule 15d-14(a) Certification of CFO. | Filed with this Report. |
| Exhibit 32.1 | Section 1350 Certification of CEO. | Furnished with this Report. |
| Exhibit 32.2 | Section 1350 Certification of CFO. | Furnished with this Report. |
| Exhibit 101.INS | XBRL Instance Document. | * |
| Exhibit 101.SCH | XBRL Taxonomy Extension Schema Document. | * |
| Exhibit 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. | * |
| Exhibit 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. | * |
| Exhibit 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. | * |
| Exhibit 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. | * |

* Submitted electronically with this Report in accordance with the provisions of Regulation S-T.

Instruments defining the rights of holders of certain issues of long-term debt of Ford Credit have not been filed as exhibits to this Report because the authorized principal amount of any one of such issues does not exceed 10% of the total assets of Ford Credit. Ford Credit will furnish a copy of each such instrument to the SEC upon request.

**ITEM 16. *Form 10-K Summary.***

None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Ford Motor Credit Company LLC has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

FORD MOTOR CREDIT COMPANY LLC

By: /s/ Brian E. Schaaf
Brian E. Schaaf
Chief Financial Officer and Treasurer

Date: February 21, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of Ford Motor Credit Company LLC and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| DAVID W. MCCLELLAND*<br>David W. McClelland | Director, President and Chief Executive Officer (principal executive officer) | February 21, 2019 |
| N. JOY FALOTICO*<br>N. Joy Falotico | Director, Chairman of the Board | February 21, 2019 |
| JOHN T. LAWLER*<br>John T. Lawler | Director and Audit Committee Member | February 21, 2019 |
| DAVID A. WEBB*<br>David A. Webb | Director and Chair of the Audit Committee | February 21, 2019 |
| THOMAS C. SCHNEIDER*<br>Thomas C. Schneider | Director and Executive Vice President, Chief Risk Officer | February 21, 2019 |
| BRIAN E. SCHAAF*<br>Brian E. Schaaf | Director, Chief Financial Officer and Treasurer (principal financial officer and principal accounting officer) | February 21, 2019 |
| * By /s/ DAVID J. WITTEN<br>David J. Witten | Attorney-in-Fact | February 21, 2019 |

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholder of
Ford Motor Credit Company LLC

### *Opinions on the Financial Statements and Internal Control over Financial Reporting*

We have audited the accompanying consolidated balance sheets of Ford Motor Credit Company LLC and its subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, shareholder's interest and cash flows for each of the three years in the period ended December 31, 2018, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

### *Basis for Opinions*

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### *Definition and Limitations of Internal Control over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Detroit, Michigan
February 21, 2019

We have served as the Company's auditor since 1959.

## FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
## CONSOLIDATED INCOME STATEMENT
## (in millions)

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2017 | **2018** |
| **Financing revenue** | | | |
| Operating leases | $ 5,555 | $ 5,552 | **$ 5,795** |
| Retail financing | 3,070 | 3,451 | **3,891** |
| Dealer financing | 1,760 | 1,903 | **2,207** |
| Other | 38 | 70 | **84** |
| Total financing revenue | 10,423 | 10,976 | **11,977** |
| Depreciation on vehicles subject to operating leases | (4,329) | (4,135) | **(3,867)** |
| Interest expense | (2,755) | (3,175) | **(3,930)** |
| Net financing margin | 3,339 | 3,666 | **4,180** |
| **Other revenue** | | | |
| Insurance premiums earned (Note 14) | 156 | 158 | **167** |
| Fee based revenue and other | — | 243 | **238** |
| Total financing margin and other revenue | 3,495 | 4,067 | **4,585** |
| **Expenses** | | | |
| Operating expenses | 1,274 | 1,295 | **1,429** |
| Provision for credit losses (Note 6) | 547 | 588 | **532** |
| Insurance expenses (Note 14) | 125 | 124 | **77** |
| Total expenses | 1,946 | 2,007 | **2,038** |
| Other income, net (Note 15) | 330 | 250 | **80** |
| **Income before income taxes** | 1,879 | 2,310 | **2,627** |
| Provision for / (Benefit from) income taxes (Note 12) | 506 | (697) | **403** |
| **Net income** | $ 1,373 | $ 3,007 | **$ 2,224** |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## (in millions)

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2017 | **2018** |
| **Net income** | $ 1,373 | $ 3,007 | **$ 2,224** |
| Other comprehensive income / (loss), net of tax (Note 13) | | | |
| Foreign currency translation | (283) | 471 | **(410)** |
| **Total other comprehensive income / (loss), net of tax** | (283) | 471 | **(410)** |
| **Comprehensive income** | $ 1,090 | $ 3,478 | **$ 1,814** |

The accompanying notes are part of the financial statements.

## FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
## CONSOLIDATED BALANCE SHEET
## (in millions)

| | December 31, 2017 | **December 31, 2018** |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents (Note 3) | $ 9,558 | **$ 9,607** |
| Marketable securities (Note 3) | 2,881 | **1,308** |
| Finance receivables, net (Note 4) | 116,003 | **118,814** |
| Net investment in operating leases (Note 5) | 26,661 | **27,449** |
| Notes and accounts receivable from affiliated companies | 1,076 | **905** |
| Derivative financial instruments (Note 9) | 935 | **670** |
| Other assets (Note 10) | 3,329 | **3,456** |
| **Total assets** | $ 160,443 | **$ 162,209** |
| | | |
| **LIABILITIES** | | |
| Accounts payable | | |
| Customer deposits, dealer reserves, and other | $ 1,171 | **$ 1,097** |
| Affiliated companies | 592 | **426** |
| Total accounts payable | 1,763 | **1,523** |
| Debt (Note 11) | 137,828 | **140,146** |
| Deferred income taxes | 2,386 | **2,595** |
| Derivative financial instruments (Note 9) | 310 | **663** |
| Other liabilities and deferred income (Note 10) | 2,272 | **2,307** |
| **Total liabilities** | 144,559 | **147,234** |
| | | |
| **SHAREHOLDER'S INTEREST** | | |
| Shareholder's interest | 5,227 | **5,227** |
| Accumulated other comprehensive income / (loss) (Note 13) | (419) | **(829)** |
| Retained earnings | 11,076 | **10,577** |
| **Total shareholder's interest** | 15,884 | **14,975** |
| **Total liabilities and shareholder's interest** | $ 160,443 | **$ 162,209** |

The following table includes assets to be used to settle the liabilities of the consolidated variable interest entities ("VIEs"). These assets and liabilities are included in the consolidated balance sheet above. See Notes 7 and 8 for additional information on our VIEs.

| | December 31, 2017 | **December 31, 2018** |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 3,479 | **$ 2,728** |
| Finance receivables, net | 56,250 | **58,662** |
| Net investment in operating leases | 11,503 | **16,332** |
| Derivative financial instruments | 64 | **27** |
| | | |
| **LIABILITIES** | | |
| Debt | $ 46,437 | **$ 53,269** |
| Derivative financial instruments | 2 | **24** |

The accompanying notes are part of the financial statements.

**FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF SHAREHOLDER'S INTEREST**
**(in millions)**

| | Shareholder's Interest Attributable to Ford Motor Credit Company | | | | | |
|---|---|---|---|---|---|---|
| | **Shareholder's Interest** | **Accumulated Other Comprehensive Income / (Loss) (Note 13)** | **Retained Earnings** | **Total** | **Shareholder's Interest Attributable to Non-Controlling Interests** | **Total Shareholder's Interest** |
| **Year Ended December 31, 2015** | $ 5,227 | $ (607) | $ 7,093 | $ 11,713 | $ 1 | $ 11,714 |
| Net income | — | — | 1,373 | 1,373 | — | 1,373 |
| Other comprehensive income / (loss), net of tax | — | (283) | — | (283) | — | (283) |
| Distributions declared | — | — | — | — | (1) | (1) |
| **Year Ended December 31, 2016** | $ 5,227 | $ (890) | $ 8,466 | $ 12,803 | $ — | $ 12,803 |
| Net income | — | — | 3,007 | 3,007 | — | 3,007 |
| Other comprehensive income / (loss), net of tax | — | 471 | — | 471 | — | 471 |
| Adoption of accounting standard | — | — | 9 | 9 | — | 9 |
| Distributions declared | — | — | (406) | (406) | — | (406) |
| **Year Ended December 31, 2017** | **$ 5,227** | **$ (419)** | **$ 11,076** | **$ 15,884** | **$ —** | **$ 15,884** |
| **Net income** | **—** | **—** | **2,224** | **2,224** | **—** | **2,224** |
| **Other comprehensive income / (loss), net of tax** | **—** | **(410)** | **—** | **(410)** | **—** | **(410)** |
| **Distributions declared** | **—** | **—** | **(2,723)** | **(2,723)** | **—** | **(2,723)** |
| **Year Ended December 31, 2018** | **$ 5,227** | **$ (829)** | **$ 10,577** | **$ 14,975** | **$ —** | **$ 14,975** |

The accompanying notes are part of the financial statements.

# FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
## CONSOLIDATED STATEMENT OF CASH FLOWS
## (in millions)

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2017 | **2018** |
| **Cash flows from operating activities** | | | |
| Net income | $ 1,373 | $ 3,007 | **$ 2,224** |
| Adjustments to reconcile net income to net cash provided by operations | | | |
| Provision for credit losses | 547 | 588 | **532** |
| Depreciation and amortization | 5,121 | 4,928 | **4,735** |
| Amortization of upfront interest supplements | (1,341) | (1,686) | **(2,041)** |
| Net change in deferred income taxes | 340 | (923) | **259** |
| Net change in other assets | (413) | (606) | **(276)** |
| Net change in other liabilities | 462 | 480 | **115** |
| All other operating activities | 142 | (123) | **155** |
| Net cash provided by / (used in) operating activities | 6,231 | 5,665 | **5,703** |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchases of finance receivables | (37,494) | (43,232) | **(44,384)** |
| Principal collections of finance receivables | 30,924 | 37,277 | **42,553** |
| Purchases of operating lease vehicles | (14,441) | (12,780) | **(14,306)** |
| Proceeds from termination of operating lease vehicles | 7,920 | 8,538 | **9,223** |
| Net change in wholesale receivables and other short-duration receivables | (1,499) | (874) | **(2,661)** |
| Purchases of marketable securities | (7,289) | (5,899) | **(3,632)** |
| Proceeds from sales and maturities of marketable securities | 6,756 | 6,316 | **5,171** |
| Settlements of derivatives | 215 | (117) | **226** |
| All other investing activities | (105) | (30) | **102** |
| Net cash provided by / (used in) investing activities | (15,013) | (10,801) | **(7,708)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issuances of long-term debt | 42,971 | 44,994 | **49,954** |
| Principal payments on long-term debt | (38,000) | (39,372) | **(42,530)** |
| Change in short-term debt, net | 3,403 | 1,195 | **(2,263)** |
| Cash distributions to parent | — | (406) | **(2,723)** |
| All other financing activities | (103) | (105) | **(151)** |
| Net cash provided by / (used in) financing activities | 8,271 | 6,306 | **2,287** |
| Effect of exchange rate changes on cash, cash equivalents, and restricted cash | (246) | 327 | **(217)** |
| | | | |
| **Net increase / (decrease) in cash, cash equivalents, and restricted cash** | $ (757) | $ 1,497 | **$ 65** |
| | | | |
| **Cash, cash equivalents and restricted cash at January 1 (Note 3)** | $ 8,942 | $ 8,185 | **$ 9,682** |
| Net increase / (decrease) in cash, cash equivalents and restricted cash | (757) | 1,497 | **65** |
| **Cash, cash equivalents and restricted cash at December 31 (Note 3)** | $ 8,185 | $ 9,682 | **$ 9,747** |

The accompanying notes are part of the financial statements.

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## NOTE 1. PRESENTATION

### Principles of Consolidation

The accompanying consolidated financial statements include Ford Motor Credit Company LLC, its controlled domestic and foreign subsidiaries and joint ventures, and consolidated VIEs in which Ford Motor Credit Company LLC is the primary beneficiary (collectively referred to herein as "Ford Credit," "we," "our," or "us"). Affiliates that we do not consolidate, but for which we have significant influence over operating and financial policies, are accounted for using the equity method. We are an indirect, wholly owned subsidiary of Ford Motor Company ("Ford"). We prepare our financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"). We reclassify certain prior period amounts in our consolidated financial statements to conform to current year presentation.

In June 2018, Argentina was classified as having a highly inflationary economy due to the three-year cumulative consumer price index exceeding 100%. As a result, we changed the functional currency for our operations in Argentina from the Argentine peso to the U.S. dollar as of July 1, 2018.

### Nature of Operations

We offer a wide variety of automotive financing products to and through automotive dealers throughout the world. Our portfolio consists of finance receivables and net investment in operating leases. We also service the finance receivables and net investment in operating leases we originate and purchase, make loans to Ford affiliates, and provide insurance services related to our financing programs. See Notes 4 and 5 for additional information.

We conduct our financing operations directly and indirectly through our subsidiaries and affiliates. We offer substantially similar products and services throughout many different regions, subject to local legal restrictions and market conditions. See Note 17 for key operating data on our business segments and for geographic information on our regions.

The predominant share of our business consists of financing Ford vehicles and supporting Ford dealers. Any extended reduction or suspension of Ford's production or sale of vehicles due to a decline in consumer demand, work stoppage, governmental action, negative publicity or other event, or significant changes to marketing programs sponsored by Ford, would have an adverse effect on our business.

Certain subsidiaries are subject to regulatory capital requirements that may limit the ability of those subsidiaries to pay dividends.

## NOTE 2. ACCOUNTING POLICIES

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

### Use of Estimates

The preparation of financial statements requires the use of estimates, as determined by management. Because of the inherent uncertainty involved in making estimates, actual results reported in future periods might be based upon amounts that differ from those estimates. The accounting estimates that are most important to our business involve the allowance for credit losses and accumulated depreciation on vehicles subject to operating leases.

**NOTE 2. ACCOUNTING POLICIES *(Continued)***

**Foreign Currency**

We remeasure monetary assets and liabilities denominated in a currency that is different than a reporting entity's functional currency from the transactional currency to the legal entity's functional currency. The effect of this remeasurement process, and the results of our foreign currency hedging activities are reported in *Other income, net*.

Generally, our foreign subsidiaries use the local currency as their functional currency. We translate the assets and liabilities of our foreign subsidiaries from their respective functional currencies to U.S. dollars using end-of-period exchange rates. Changes in the carrying value of these assets and liabilities attributable to fluctuations in exchange rates are recognized in *Foreign currency translation*, a component of *Total Other comprehensive income / (loss), net of tax*. Upon sale or upon complete or substantially complete liquidation of an investment in a foreign subsidiary, the amount of accumulated foreign currency translation related to the entity is reclassified to *Net income* and recognized as part of the gain or loss on the investment.

**Fair Value Measurements**

Cash equivalents, marketable securities, and derivative financial instruments are remeasured and presented on our financial statements on a recurring basis at fair value, while other assets and liabilities are measured at fair value on a nonrecurring basis.

In measuring fair value, we use various valuation methods and prioritize the use of observable inputs. The use of observable and unobservable inputs and their significance in measuring fair value are reflected in our fair value hierarchy.

- Level 1 – inputs include quoted prices for identical instruments and are the most observable
- Level 2 – inputs include quoted prices for similar instruments and observable inputs such as interest rates, currency exchange rates, and yield curves
- Level 3 – inputs include data not observable in the market and reflect management judgment about the assumptions market participants would use in pricing the instruments

Transfers into and transfers out of the hierarchy levels are recognized as if they had taken place at the end of the reporting period.

**Adoption of New Accounting Standards**

*Accounting Standards Update ("ASU") 2017-12, Derivatives and Hedging.* On January 1, 2018, we adopted the amendments to Accounting Standards Codification ("ASC") 815 which aligns hedge accounting with risk management activities and simplifies the requirements to qualify for hedge accounting. Adoption did not have a material impact on our financial statements.

*ASU 2016-01, Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities.* On January 1, 2018, we adopted ASU 2016-01 and the related amendments. This standard amends various aspects of the recognition, measurement, presentation, and disclosure of financial instruments. We adopted the measurement alternative for equity investments without readily determinable fair values (often referred to as cost method investments) on a prospective basis. As a result, these investments will be revalued upon occurrence of an observable price change for similar investments and for impairments. We anticipate adoption may increase the volatility on our consolidated income statement.

## NOTE 2. ACCOUNTING POLICIES *(Continued)*

We also adopted the following standards during 2018, none of which had a material impact to our financial statements or financial statement disclosures:

| Standard | | Effective Date |
|---|---|---|
| 2017-08 | Nonrefundable Fees and Other Costs - Premium Amortization on Purchased Callable Debt Securities | January 1, 2018 |
| 2016-18 | Statement of Cash Flows - Restricted Cash | January 1, 2018 |
| 2016-16 | Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory | January 1, 2018 |
| 2016-15 | Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments | January 1, 2018 |

### Accounting Standards Issued But Not Yet Adopted

The following represent the standards that will, or are expected to, result in a significant change in practice and / or have a significant financial impact to Ford Credit.

*ASU 2016-13, Credit Losses - Measurement of Credit Losses on Financial Instruments*. In June 2016, the Financial Accounting Standards Board ("FASB") issued a new accounting standard which replaces the current incurred loss impairment method with a method that reflects expected credit losses. We plan to adopt the new standard, and the related amendments, on its effective date of January 1, 2020 by recognizing the cumulative effect of initially applying the new standard as an adjustment to the opening balance of *Retained earnings*. We anticipate adoption will increase the amount of expected credit losses reported in *Finance receivables, net* on our consolidated balance sheet and do not expect a material impact to our consolidated income statement.

*ASU 2016-02, Leases* - In February 2016, the FASB issued a new accounting standard which provides guidance on the recognition, measurement, presentation, and disclosure of leases. The new standard supersedes the present U.S. GAAP standard on leases and requires substantially all leases to be reported on the balance sheet as right-of-use assets and lease obligations. The new standard, and the related amendments, are effective on January 1, 2019. Adoption of the standard as a lessor will not significantly impact our financial statements. As a lessee, it will add about $100 million of right-of-use assets and lease obligations to our balance sheet and will not significantly impact our income statement. We will elect the practical expedients upon transition that will retain the lease classification and initial direct costs for any leases that exist prior to adoption of the standard and not reassess whether any contracts entered into prior to adoption are leases.

## NOTE 3. CASH, CASH EQUIVALENTS, AND MARKETABLE SECURITIES

*Cash and Cash Equivalents.* Included in *Cash and cash equivalents* are highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value due to interest rate, quoted price, or penalty on withdrawal. A debt security is classified as a cash equivalent if it meets these criteria and if it has a remaining time to maturity of three months or less from the date of acquisition. Amounts on deposit and available upon demand, or negotiated to provide for daily liquidity without penalty, are classified as *Cash and cash equivalents*. Time deposits, certificates of deposit, and money market accounts that meet the above criteria are reported at par value on our balance sheet.

*Marketable Securities.* Investments in securities with a maturity date greater than three months at the date of purchase and other securities for which there is more than an insignificant risk of change in value due to interest rate, quoted price, or penalty on withdrawal are classified as *Marketable securities*. These investments are reported at fair value. We generally measure fair value using prices obtained from pricing services. Pricing methods and inputs to valuation models used by the pricing services depend on the security type (i.e., asset class). Where possible, fair values are generated using market inputs including quoted prices (the closing price in an exchange market), bid prices (the price at which a buyer stands ready to purchase), and other market information. For fixed income securities that are not actively traded, the pricing services use alternative methods to determine fair value for the securities, including quotes for similar fixed income securities, matrix pricing, discounted cash flow using benchmark curves, or other factors. In certain cases, when market data are not available, we may use broker quotes to determine fair value.

An annual review is performed on the security prices received from our pricing services, which includes discussion and analysis of the inputs used by the pricing services to value our securities. We also compare the price of certain securities sold close to the quarter end to the price of the same security at the balance sheet date to ensure the reported fair value is reasonable.

Realized and unrealized gains and losses and interest income on our marketable securities are recorded in *Other income, net*. Realized gains and losses are measured using the specific identification method.

The following table categorizes the fair values of cash, cash equivalents, and marketable securities measured at fair value on a recurring basis on our balance sheet at December 31 (in millions):

| | Fair Value Level | 2017 | 2018 |
|---|---|---|---|
| **Cash and cash equivalents** | | | |
| U.S. government | 1 | $ — | $ 139 |
| U.S. government and agencies | 2 | 300 | 25 |
| Non-U.S. government and agencies | 2 | 703 | 114 |
| Corporate debt | 2 | 25 | 884 |
| Total marketable securities classified as cash equivalents | | 1,028 | 1,162 |
| Cash, time deposits and money market funds | | 8,530 | 8,445 |
| Total cash and cash equivalents | | $ 9,558 | $ 9,607 |
| | | | |
| **Marketable Securities** | | | |
| U.S. government | 1 | $ 966 | $ 289 |
| U.S. government and agencies | 2 | 384 | 65 |
| Non-U.S. government and agencies | 2 | 660 | 610 |
| Corporate debt | 2 | 848 | 198 |
| Other marketable securities | 2 | 23 | 146 |
| Total marketable securities | | $ 2,881 | $ 1,308 |

## NOTE 3. Cash, Cash Equivalents, and Marketable Securities *(Continued)*

### Cash, Cash Equivalents, and Restricted Cash

Cash, cash equivalents, and restricted cash as reported in the statement of cash flows are presented separately on our consolidated balance sheet as follows (in millions):

| | December 31, 2017 | December 31, 2018 |
|---|---|---|
| Cash and cash equivalents | $ 9,558 | $ 9,607 |
| Restricted cash included in other assets (a) | 124 | 140 |
| **Total cash, cash equivalents, and restricted cash** | $ 9,682 | $ 9,747 |

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(a) 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. Restricted cash does not include required minimum balances or cash securing debt issued through securitization transactions.

## NOTE 4. FINANCE RECEIVABLES

We manage finance receivables as "consumer" and "non-consumer" portfolios. The receivables are generally secured by the vehicles, inventory, or other property being financed.

Finance receivables are recorded at the time of origination or purchase at fair value and are subsequently reported at amortized cost, net of any allowance for credit losses.

Revenue from finance receivables is recognized using the interest method and includes the accretion of certain direct origination costs that are deferred and interest supplements received from Ford and affiliated companies. The unearned interest supplements on finance receivables are included in *Finance receivables, net* on the balance sheet, and the earned interest supplements are included in *Total financing revenue* on the income statement.

We measure finance receivables 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, pre-payment speed, and applicable spreads to approximate current rates. Our assumptions regarding pre-payment speed and credit losses are based on historical performance. The fair value of finance receivables is categorized within Level 3 of the hierarchy.

On a nonrecurring basis, we also measure at fair value retail contracts greater than 120 days past due or deemed to be uncollectible, and individual dealer loans probable of foreclosure. We use the fair value of collateral, adjusted for estimated costs to sell, to determine the fair value of our receivables. The collateral for a retail receivable is the vehicle financed, and for dealer loans is real estate or other property.

The fair value of collateral for retail receivables is calculated by multiplying the outstanding receivable balances by the average recovery value percentage. The fair value of collateral for dealer loans is determined by reviewing various appraisals, which include total adjusted appraised value of land and improvements, alternate use appraised value, broker's opinion of value, and purchase offers.

*Consumer Portfolio*. Receivables in this portfolio include products offered to individuals and businesses that finance the acquisition of Ford and Lincoln vehicles from dealers for personal or commercial use. Retail financing includes retail installment contracts for new and used vehicles and direct financing leases with retail customers, government entities, daily rental companies, and fleet customers.

*Non-Consumer Portfolio.* Receivables in this portfolio include products offered to automotive dealers and receivables purchased from Ford and its affiliates. The products include:

- *Dealer financing* – includes wholesale loans to dealers to finance the purchase of vehicle inventory, also known as floorplan financing, as well as loans to dealers to finance working capital and improvements to dealership facilities, to finance the purchase of dealership real estate, and to finance other dealer programs. Wholesale financing is approximately 94% of our dealer financing.

- *Other financing* – includes purchased receivables from Ford and its affiliates, primarily related to the sale of parts and accessories to dealers and certain used vehicles from daily rental fleet companies. In addition, we provide financing to Ford for vehicles that Ford leases to its employees. These receivables are excluded from our credit quality reporting since the performance of this group of receivables is generally guaranteed by Ford.

*Notes and accounts receivable from affiliated companies* are presented separately on the balance sheet. These receivables are based on intercompany relationships and the balances are settled regularly. We do not assess these receivables for potential credit losses, nor are they subjected to aging analysis, credit quality reviews, or other formal assessments. As a result, *Notes and accounts receivable from affiliated companies* are not subject to the following disclosures contained herein.

## NOTE 4. FINANCE RECEIVABLES *(Continued)*

### Finance Receivables, Net

Finance receivables, net at December 31 were as follows (in millions):

| | 2017 | 2018 |
|---|---|---|
| **Consumer** | | |
| Retail financing, gross | $ 78,467 | $ 79,747 |
| Unearned interest supplements from Ford and affiliated companies | (3,280) | (3,508) |
| Consumer finance receivables | 75,187 | 76,239 |
| | | |
| **Non-Consumer** | | |
| Dealer financing (a) | 39,241 | 40,996 |
| Other financing (b) | 2,172 | 2,168 |
| Non-Consumer finance receivables | 41,413 | 43,164 |
| Total recorded investment (c) | $ 116,600 | $ 119,403 |
| | | |
| Recorded investment in finance receivables | $ 116,600 | $ 119,403 |
| Allowance for credit losses | (597) | (589) |
| Finance receivables, net | $ 116,003 | $ 118,814 |
| | | |
| Net finance receivables subject to fair value (d) | $ 112,717 | $ 115,059 |
| Fair value | 112,133 | 114,593 |

__________
(a) At December 31, 2017 and 2018, includes $4.8 billion and $6.0 billion, respectively, of receivables generated by divisions and affiliates of Ford in connection with vehicle inventories released from Ford and in transit to the destination dealers. The amount of interest earned from Ford and affiliated companies associated with receivables from gate-released vehicles in transit to dealers for the years ended December 31, 2016, 2017 and 2018 was $129 million, $166 million, and $261 million, respectively. At December 31, 2017 and 2018, also includes $466 million and $662 million, respectively, of dealer financing receivables with entities (primarily dealers) that are reported as consolidated subsidiaries of Ford. For the years ended December 31, 2016, 2017, and 2018, the interest earned on receivables from consolidated subsidiaries of Ford to which we provide dealer financing was $9 million, $7 million, and $8 million, respectively. Consolidated subsidiaries of Ford include dealerships that are partially owned by Ford as consolidated VIEs and also certain overseas affiliates.

(b) This amount represents other financing receivables with Ford and entities (primarily dealers) that are reported as consolidated subsidiaries of Ford, which includes amounts associated with purchased receivables and receivables associated with the financing of vehicles that Ford leases to employees. The amount of interest earned from Ford and affiliated companies associated with these other financing receivables totaled $38 million, $70 million, and $84 million for the years ended December 31, 2016, 2017, and 2018, respectively.

(c) The amount of earned interest supplements on consumer and non-consumer receivables from Ford and affiliated companies totaled $1.6 billion, $2.0 billion, and $2.4 billion, for the years ended December 31, 2016, 2017, and 2018, respectively. The related amount of cash received from interest supplements totaled $2.3 billion, $2.3 billion, and $2.7 billion for the years ended December 31, 2016, 2017, and 2018, respectively.

(d) At December 31, 2017 and 2018, *Finance receivables, net* includes $3.3 billion and $3.8 billion, respectively, of direct financing leases that are not subject to fair value disclosure requirements.

Excluded from finance receivables at December 31, 2017 and 2018 was $241 million and $264 million, respectively, of accrued uncollected interest, which we report in *Other assets* on our balance sheet.

Included in recorded investment in finance receivables at December 31, 2017 and 2018 were consumer receivables of $38.9 billion and $40.7 billion, respectively, and non-consumer receivables of $24.5 billion and $25.7 billion, respectively, that have been sold for legal purposes in securitization transactions but continue to be reported in our consolidated financial statements. The receivables 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 Ford Credit's other creditors. 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 (see Note 7 for additional information).

**NOTE 4. FINANCE RECEIVABLES *(Continued)***

Contractual maturities of total finance receivables outstanding at December 31, 2018 reflect contractual repayments due from customers or borrowers and were as follows (in millions):

| | Due in Year Ending December 31, | | | | |
|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | Thereafter | Total |
| **Consumer** | | | | | |
| Retail financing, gross (a) | $ 23,689 | $ 20,518 | $ 16,716 | $ 18,824 | $ 79,747 |
| **Non-Consumer** | | | | | |
| Dealer financing | 38,589 | 972 | 200 | 1,235 | 40,996 |
| Other financing | 2,154 | 5 | 6 | 3 | 2,168 |
| Total finance receivables | $ 64,432 | $ 21,495 | $ 16,922 | $ 20,062 | $ 122,911 |

__________
(a) Contractual maturities of retail financing, gross include $309 million of estimated unguaranteed residual values related to direct financing leases.

Our finance receivables are generally pre-payable without penalty, so prepayments may cause actual maturities to differ from contractual maturities.

## Aging

For all finance receivables, we define "past due" as any payment, including principal and interest, that is at least 31 days past the contractual due date. The recorded investment of consumer receivables greater than 90 days past due and still accruing interest was $24 million and $20 million at December 31, 2017 and 2018, respectively.

The aging analysis of finance receivables balances at December 31 was as follows (in millions):

| | 2017 | 2018 |
|---|---|---|
| **Consumer** | | |
| 31-60 days past due | $ 748 | $ 859 |
| 61-90 days past due | 113 | 123 |
| 91-120 days past due | 36 | 39 |
| Greater than 120 days past due | 37 | 39 |
| Total past due | 934 | 1,060 |
| Current | 74,253 | 75,179 |
| Consumer finance receivables | 75,187 | 76,239 |
| **Non-Consumer** | | |
| Total past due | 122 | 76 |
| Current | 41,291 | 43,088 |
| Non-Consumer finance receivables | 41,413 | 43,164 |
| Total recorded investment | $ 116,600 | $ 119,403 |

## NOTE 4. FINANCE RECEIVABLES *(Continued)*

### Credit Quality

*Consumer Portfolio.* When originating all classes of consumer receivables (i.e., retail and lease products), we use a proprietary scoring system that measures credit quality using information in the credit application, proposed contract terms, credit bureau data, and other information. After a proprietary risk score is generated, we decide whether to originate 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 creditworthiness focusing on payment, affordability, applicant credit history, and stability as key considerations.

After origination, we review the credit quality of retail financing based on customer payment activity. As each customer develops a payment history, we use an internally developed behavioral scoring model to assist in determining the best collection strategies, which allows us to focus collection activity on higher-risk accounts. These models are used to refine our risk-based staffing model to ensure collection resources are aligned with portfolio risk. Based on data from this scoring model, contracts are categorized by collection risk. Our collection models evaluate several factors, including origination characteristics, updated credit bureau data, and payment patterns.

Credit quality ratings for consumer receivables are based on our aging analysis. Consumer receivables credit quality ratings are as follows:

- *Pass* – current to 60 days past due;
- *Special Mention* – 61 to 120 days past due and in intensified collection status; and
- *Substandard* – greater than 120 days past due and for which the uncollectible portion of the receivables has already been charged off, as measured using the fair value of collateral less costs to sell.

*Non-Consumer Portfolio.* We extend credit to dealers primarily in the form of lines of credit to purchase new Ford and Lincoln vehicles as well as used vehicles. Payment is required when the dealer has sold the vehicle. Each non-consumer lending request is evaluated by considering the borrower's financial condition and the underlying collateral securing the loan. We use a proprietary model to assign each dealer a risk rating. This model uses historical dealer performance data to identify key factors about a dealer that we consider most significant in predicting a dealer's ability to meet its financial obligations. We also consider numerous other financial and qualitative factors of the dealer's operations, including capitalization and leverage, liquidity and cash flow, profitability, and credit history with ourselves and other creditors.

Dealers are assigned to one of four groups according to risk ratings as follows:

- *Group I* – strong to superior financial metrics;
- *Group II* – fair to favorable financial metrics;
- *Group III* – marginal to weak financial metrics; and
- *Group IV* – poor financial metrics, including dealers classified as uncollectible.

We generally suspend credit lines and extend no further funding to dealers classified in Group IV.

We regularly review our model to confirm the continued business significance and statistical predictability of the model and may make and updates to improve the performance of the model. In addition, we regularly audit dealer inventory and dealer sales records to verify that the dealer is in possession of the financed vehicles and is promptly paying each receivable following the sale of the financed vehicle. The frequency of on-site vehicle inventory audits depends primarily on the dealer's risk rating. Under our policies, on-site vehicle inventory audits of low-risk dealers are conducted only as circumstances warrant. On-site vehicle inventory audits of higher-risk dealers are conducted with increased frequency based primarily on the dealer's risk rating, but also considering the results of our electronic monitoring of the dealer's performance, including daily payment verifications and monthly analysis of the dealer's financial statements, payoffs, aged inventory, over credit line and delinquency reports. We typically perform a credit review of each dealer annually and more frequently review certain dealers based on the dealer's risk rating and total exposure. We adjust the dealer's risk rating, if necessary.

**NOTE 4. FINANCE RECEIVABLES *(Continued)***

The credit quality of dealer financing receivables is evaluated based on our internal dealer risk rating analysis. A dealer has the same risk rating for its entire dealer financing regardless of the type of financing.

The credit quality analysis of our dealer financing receivables at December 31 was as follows (in millions):

| | 2017 | 2018 |
|---|---|---|
| **Dealer financing** | | |
| Group I | $ 31,551 | $ 33,656 |
| Group II | 5,912 | 5,635 |
| Group III | 1,640 | 1,576 |
| Group IV | 138 | 129 |
| Total recorded investment | $ 39,241 | $ 40,996 |

## Impaired Receivables

Impaired consumer receivables include accounts that have been rewritten or modified in reorganization proceedings pursuant to the U.S. Bankruptcy Code that are considered to be Troubled Debt Restructurings ("TDRs"), as well as all accounts greater than 120 days past due. Impaired non-consumer receivables represent accounts with dealers that have weak or poor financial metrics or dealer financing that has been modified in TDRs. The recorded investment of consumer receivables that were impaired at December 31, 2017 and 2018 was $386 million and $370 million, or 0.5% and 0.5% of consumer receivables, respectively. The recorded investment of non-consumer receivables that were impaired at December 31, 2017 and 2018 was $138 million and $129 million, or 0.3% and 0.3% of non-consumer receivables, respectively. Impaired finance receivables are evaluated both collectively and specifically. See Note 6 for additional information related to the development of our allowance for credit losses.

The accrual of revenue is discontinued at the time a receivable is determined to be uncollectible. Accounts may be restored to accrual status only when a customer settles all past-due deficiency balances and future payments are reasonably assured. For receivables in non-accrual status, subsequent financing revenue is recognized only to the extent a payment is received. Payments are generally applied first to outstanding interest and then to the unpaid principal balance.

A restructuring of debt constitutes a TDR if we grant a concession to a debtor for economic or legal reasons related to the debtor's financial difficulties that we otherwise would not consider. Consumer and non-consumer receivables that have a modified interest rate below market rate or that were modified in reorganization proceedings pursuant to the U.S. Bankruptcy Code, except non-consumer receivables that are current with minimal risk of loss, are considered to be TDRs. We do not grant concessions on the principal balance of our receivables. If a receivable is modified in a reorganization proceeding, all payment requirements of the reorganization plan need to be met before remaining balances are forgiven. Finance receivables involved in TDRs are specifically assessed for impairment.

## NOTE 5. NET INVESTMENT IN OPERATING LEASES

*Net investment in operating leases* consist primarily of lease contracts for vehicles with retail customers, daily rental companies, and fleet customers with terms of 60 months or less.

Revenue from rental payments received on operating leases is recognized on a straight-line basis over the term of the lease. The accrual of revenue on operating leases is discontinued at the time an account is determined to be uncollectible.

We receive interest supplements and residual support payments on certain leasing transactions under agreements with Ford. We recognize these upfront collections from Ford and other vehicle acquisition costs as part of *Net investment in operating leases*, which are amortized to *Depreciation on vehicles subject to operating leases* over the term of the lease contract. The amount of unearned interest supplements and residual support included in *Net investment in operating leases* at December 31, 2017 and 2018 was $2.8 billion and $3.3 billion, respectively. The amount of earned interest supplements and residual support costs included in *Depreciation on vehicles subject to operating lease* for the years ended December 31, 2016, 2017, and 2018 was $1.9 billion, $2.1 billion, and $2.4 billion, respectively. The amount of interest supplements and residual support cash received totaled $2.0 billion, $2.4 billion, and $2.8 billion for the years ended December 31, 2016, 2017, and 2018, respectively.

Depreciation expense on vehicles subject to operating leases is recognized on a straight-line basis in an amount necessary to reduce the leased vehicle value to its estimated residual value at the end of the lease term. Our policy is to promptly sell returned off-lease vehicles. We evaluate our depreciation for leased vehicles on a regular basis taking into consideration various assumptions, such as expected residual values at lease termination (including residual value support payments from Ford) and the estimated number of vehicles that will be returned to us. Adjustments to depreciation expense reflecting revised estimates of expected residual values at the end of the lease terms are recorded prospectively on a straight-line basis. Upon disposition of the vehicle, the difference between net book value and actual proceeds is recorded as an adjustment to *Depreciation on vehicles subject to operating leases*.

We evaluate the carrying value of held-and-used long-lived asset groups (such as vehicles subject to operating leases) for potential impairment when we determine a triggering event has occurred. When a triggering event occurs, a test for recoverability is performed by comparing projected undiscounted future cash flows to the carrying value of the asset group. If the test for recoverability identifies a possible impairment, the asset group’s fair value is measured in accordance with the fair value measurement framework. An impairment charge is recognized for the amount by which the carrying value of the asset group exceeds its estimated fair value. For the periods presented, we have not recorded any impairment charges.

Net investment in operating leases at December 31 was as follows (in millions):

| | 2017 | 2018 |
|---|---|---|
| Vehicles, at cost (a) | $ 32,659 | $ 33,593 |
| Accumulated depreciation | (5,927) | (6,066) |
| Net investment in operating leases before allowance for credit losses | 26,732 | 27,527 |
| Allowance for credit losses | (71) | (78) |
| Net investment in operating leases | $ 26,661 | $ 27,449 |

(a) Includes interest supplements and residual support payments we receive on certain leasing transactions under agreements with Ford and affiliated companies, and other vehicle acquisition costs.

At December 31, 2017 and 2018, net investment in operating leases before allowance for credit losses includes $11.5 billion and $16.3 billion, respectively, of net investment in operating leases that have been included in securitization transactions but continue to be reported in our consolidated financial statements. These net investments 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 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 (see Note 7 for additional information).

## NOTE 5. NET INVESTMENT IN OPERATING LEASES *(Continued)*

We have a sale-leaseback agreement with Ford primarily for vehicles that Ford leases to employees of Ford and its subsidiaries. The financing we provide under this agreement is reflected on our balance sheet in *Finance receivables, net*. The revenue related to these agreements is reflected in *Other financing revenue*. Prior to January 1, 2017, this activity was reflected on our income statement in *Operating leases revenue* and *Depreciation on vehicles subject to operating leases*. For the year ended December 31, 2016, the operating lease revenue related to these vehicles was $302 million, while the depreciation expense related to these vehicles was $275 million.

The amounts contractually due for minimum rentals on operating leases at December 31, 2018 were as follows (in millions):

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Minimum rentals on operating leases | $ 4,708 | $ 2,929 | $ 1,083 | $ 83 | $ 6 |

Our operating leases are generally pre-payable without penalty and may cause actual amounts due to differ from amounts contractually due.

## NOTE 6. ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses represents our estimate of the probable credit loss inherent in finance receivables and operating leases 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 may vary substantially over time, estimating credit losses requires a number of assumptions about matters that are uncertain. The majority of credit losses are attributable to consumer receivables.

Additions to the allowance for credit losses are made by recording charges to the *Provision for credit losses* on the income statement. The uncollectible portion of finance receivables and operating leases are charged to the allowance for credit losses at the earlier of when an account is deemed to be uncollectible or when an account is 120 days delinquent, taking into consideration the financial condition of the customer, borrower, or lessee, the value of the collateral, recourse to guarantors, and other factors.

In the event we repossess the collateral, the receivable is charged off and we record the collateral at its estimated fair value less costs to sell and report it in *Other assets* on the balance sheet. Charge-offs on finance receivables and operating leases include uncollected amounts related to principal, interest, rental payments, late fees, and other allowable charges. Recoveries on finance receivables and operating leases previously charged off as uncollectible are credited to the allowance for credit losses.

### Consumer Portfolio and Operating Leases

We estimate the allowance for credit losses on consumer receivables and on operating leases using a combination of measurement models and management judgment. The models consider factors such as historical trends in credit losses and recoveries (including key metrics such as delinquencies, repossessions, and bankruptcies), the composition of the present portfolio (including vehicle brand, term, risk evaluation, and new/used vehicles), trends in historical used vehicle values, and economic conditions. Estimates from these models rely on historical information and may not fully reflect losses inherent in the present portfolio. Therefore, we may adjust the estimate to reflect management judgment regarding observable changes in recent economic trends and conditions, portfolio composition, and other relevant factors.

We make projections of two key assumptions to assist in estimating the consumer allowance for credit losses:

- Frequency – number of finance receivables and operating lease contracts that are expected to default over the loss emergence period (“LEP”), measured as repossessions; and
- Loss severity – 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.

**NOTE 6. ALLOWANCE FOR CREDIT LOSSES *(Continued)***

*Collective Allowance for Credit Losses.* The collective allowance is evaluated primarily using a collective loss-to-receivables ("LTR") model that, based on historical experience, indicates credit losses have been incurred in the portfolio even though the particular accounts that are uncollectible cannot be specifically identified. The LTR model is based on the most recent years of history. An LTR for each product is calculated by dividing credit losses (i.e., charge-offs net of recoveries) by average net finance receivables or average net investment in operating leases, excluding unearned interest supplements and residual support, allowance for credit losses, and other (primarily accumulated supplemental depreciation). The average LTR that is calculated for each product is multiplied by the end-of-period balances for that given product.

Our largest markets also use a loss projection model to estimate losses inherent in the portfolio. The loss projection model applies recent monthly performance metrics, stratified by contract type (retail or lease), contract term (e.g., 60-month), and risk rating to our active portfolio to estimate the losses that have been incurred.

The LEP is an assumption within our models and represents the average amount of time between when a loss event first occurs to when it is charged off. This time period starts when the consumer begins to experience financial difficulty. It is evidenced, typically through delinquency, before eventually resulting in a charge-off. The LEP is a multiplier in the calculation of the collective consumer allowance for credit losses.

For accounts greater than 120 days past due, the uncollectible portion is charged off, such that the remaining recorded investment is equal to the estimated fair value of the collateral less costs to sell.

*Specific Allowance for Impaired Receivables.* Consumer receivables involved in TDRs are specifically assessed for impairment. A specific allowance is estimated based on the present value of the expected future cash flows of the receivable discounted at the contract's original effective interest rate or the fair value of any collateral adjusted for estimated costs to sell.

After establishing the collective and specific allowance for credit losses, if management believes the allowance does not reflect all losses inherent in the portfolio due to changes in recent economic trends and conditions, or other relevant factors, an adjustment is made based on management judgment.

**Non-Consumer Portfolio**

We estimate the allowance for credit losses for non-consumer receivables based on historical LTR ratios, expected future cash flows, and the fair value of collateral.

*Collective Allowance for Credit Losses.* We estimate an allowance for non-consumer receivables that are not specifically identified as impaired using an LTR model for each financing product based on historical experience. This LTR is an average of the most recent historical experience and is calculated consistent with the consumer receivables LTR approach. All accounts that are specifically identified as impaired are excluded from the calculation of the non-specific or collective allowance.

*Specific Allowance for Impaired Receivables.* Dealer financing is evaluated by segmenting individual loans by the risk characteristics of the loan (such as the amount of the loan, the nature of the collateral, and the financial status of the debtor). The loans are analyzed to determine whether individual loans are impaired, and a specific allowance is estimated based on the present value of the expected future cash flows of the receivable discounted at the loan's original effective interest rate or the fair value of the collateral adjusted for estimated costs to sell.

After establishing the collective and specific allowance for credit losses, if management believes the allowance does not reflect all losses inherent in the portfolio due to changes in recent economic trends and conditions, or other relevant factors, an adjustment is made based on management judgment.

## NOTE 6. ALLOWANCE FOR CREDIT LOSSES *(Continued)*

An analysis of the allowance for credit losses related to finance receivables and net investment in operating leases for the years ended December 31 was as follows (in millions):

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Finance Receivables | | | Net Investment in Operating Leases | Total Allowance |
| | Consumer | Non-Consumer | Total | | |
| **Allowance for credit losses** | | | | | |
| Beginning balance | $ 469 | $ 15 | $ 484 | $ 64 | $ 548 |
| Charge-offs | (510) | (7) | (517) | (208) | (725) |
| Recoveries | 139 | 9 | 148 | 96 | 244 |
| Provision for credit losses | 471 | (2) | 469 | 119 | 588 |
| Other (a) | 13 | — | 13 | — | 13 |
| Ending balance | $ 582 | $ 15 | $ 597 | $ 71 | $ 668 |
| **Analysis of ending balance of allowance for credit losses** | | | | | |
| Collective impairment allowance | $ 560 | $ 13 | $ 573 | $ 71 | $ 644 |
| Specific impairment allowance | 22 | 2 | 24 | — | 24 |
| Ending balance | 582 | 15 | 597 | 71 | $ 668 |
| **Analysis of ending balance of finance receivables and net investment in operating leases** | | | | | |
| Collectively evaluated for impairment | 74,801 | 41,275 | 116,076 | 26,732 | |
| Specifically evaluated for impairment | 386 | 138 | 524 | — | |
| Recorded investment | 75,187 | 41,413 | 116,600 | 26,732 | |
| Ending balance, net of allowance for credit losses | $ 74,605 | $ 41,398 | $ 116,003 | $ 26,661 | |

(a) Primarily represents amounts related to translation adjustments.

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Finance Receivables | | | Net Investment in Operating Leases | Total Allowance |
| | Consumer | Non-Consumer | Total | | |
| **Allowance for credit losses** | | | | | |
| Beginning balance | $ 582 | $ 15 | $ 597 | $ 71 | $ 668 |
| Charge-offs (a) | (528) | (67) | (595) | (202) | (797) |
| Recoveries | 163 | 7 | 170 | 104 | 274 |
| Provision for credit losses | 359 | 68 | 427 | 105 | 532 |
| Other (b) | (10) | — | (10) | — | (10) |
| Ending balance | $ 566 | $ 23 | $ 589 | $ 78 | $ 667 |
| **Analysis of ending balance of allowance for credit losses** | | | | | |
| Collective impairment allowance | $ 546 | $ 14 | $ 560 | $ 78 | $ 638 |
| Specific impairment allowance | 20 | 9 | 29 | — | 29 |
| Ending balance | 566 | 23 | 589 | 78 | $ 667 |
| **Analysis of ending balance of finance receivables and net investment in operating leases** | | | | | |
| Collectively evaluated for impairment | 75,869 | 43,035 | 118,904 | 27,527 | |
| Specifically evaluated for impairment | 370 | 129 | 499 | — | |
| Recorded investment | 76,239 | 43,164 | 119,403 | 27,527 | |
| Ending balance, net of allowance for credit losses | $ 75,673 | $ 43,141 | $ 118,814 | $ 27,449 | |

(a) Non-consumer charge-offs primarily reflect a U.S. dealer's floorplan inventory and dealer loan determined to be uncollectible.
(b) Primarily represents amounts related to translation adjustments.

## NOTE 7. TRANSFERS OF RECEIVABLES

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 in 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 in both public and private transactions in capital markets primarily in the United States, Canada, the United Kingdom, Germany and China.

We use special purpose entities ("SPEs") that are considered VIEs for most of our on-balance sheet securitizations. The SPEs are established for the sole purpose of financing the securitized financial assets. The SPEs are generally financed through the issuance of notes or commercial paper into the public or private markets or directly with conduits. We may purchase subordinated notes of the VIEs in addition to the investment we make as the residual interest holder of the transaction.

We continue to recognize our financial assets related to our sales of receivables when the financial assets are sold to a consolidated VIE or a consolidated voting interest entity. We derecognize our financial assets when the financial assets are sold to a non-consolidated entity and we do not maintain control over the financial assets.

### Finance Receivables Classification

Finance receivables are accounted for as held for investment ("HFI") if management has the intent and ability to hold the receivables for the foreseeable future or until maturity or payoff. The determination of intent and ability to hold for the foreseeable future is highly judgmental and requires management to make good faith estimates based on all information available at the time of origination or purchase. If management does not have the intent and ability to hold the receivables, then the receivables are classified as held for sale ("HFS").

Each quarter, we make a determination of whether it is probable that finance receivables originated or purchased during the quarter will be held for the foreseeable future based on historical receivables sale experience, internal forecasts and budgets, as well as other relevant, reliable information available through the date of evaluation. For purposes of this determination, we define probable to mean at least 70% likely and, consistent with our budgeting and forecasting period, we define foreseeable future to mean twelve months. We classify receivables on a receivable-by-receivable basis. Specific receivables included in off-balance sheet securitizations or whole-loan sale transactions are usually not identified until the month in which the sale occurs.

*Held for Investment*

Finance receivables originated or purchased during the quarter for which we determine that it is probable we will hold for the following twelve months are classified as HFI and recorded at the time of origination or purchase at fair value and are subsequently reported at amortized cost, net of any allowance for credit losses. Cash flows resulting from the origination or purchase of and from the sale of receivables that were originally classified as HFI are recorded as an investing activity since GAAP requires the statement of cash flows presentation to be based on the original classification of the receivables.

*Held for Sale*

Finance receivables originated or purchased during the quarter for which we determine that it is not probable we will hold for the following twelve months are classified as HFS and carried at the lower of cost or fair value. Cash flows resulting from the origination or purchase and sale of these receivables are recorded as an operating activity. Once a decision has been made to sell receivables that were originally classified as HFI, the receivables are reclassified as HFS and carried at the lower of cost or fair value. The valuation adjustment, if applicable, is recorded in *Other income, net* to recognize the receivables at the lower of cost or fair value. Once receivables that were classified as HFS are sold, the receivables are removed from the balance sheet and the fair value adjustment is incorporated into the book value of receivables for purposes of determining the gain or loss on sale.

## NOTE 7. TRANSFERS OF RECEIVABLES *(Continued)*

### On-Balance Sheet Securitization Transactions

We engage in securitization transactions to fund operations and to maintain liquidity. Our securitization transactions are recorded as asset-backed debt and the associated assets are not derecognized and continue to be included in our financial statements.

The finance receivables sold for legal purposes and net investment in operating leases included in securitization transactions 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. The debt is the obligation of our consolidated securitization entities and not the obligation of Ford Credit or our other subsidiaries.

Most of these securitization transactions utilize VIEs. See Note 8 for additional information concerning VIEs. The following tables show the assets and debt related to our securitization transactions that were included in our financial statements at December 31 (in billions):

| | 2017 | | | | |
|---|---|---|---|---|---|
| | | Finance Receivables and Net Investment in Operating Leases (a) | | | |
| | Cash and Cash Equivalents | Before Allowance for Credit Losses | Allowance for Credit Losses | After Allowance for Credit Losses | Related Debt (c) |
| **VIE (b)** | | | | | |
| Retail financing | $ 1.8 | $ 32.6 | $ 0.2 | $ 32.4 | $ 27.7 |
| Wholesale financing | 1.2 | 23.9 | — | 23.9 | 11.5 |
| Finance receivables | 3.0 | 56.5 | 0.2 | 56.3 | 39.2 |
| Net investment in operating leases | 0.5 | 11.5 | — | 11.5 | 7.2 |
| Total VIE | $ 3.5 | $ 68.0 | $ 0.2 | $ 67.8 | $ 46.4 |
| **Non-VIE** | | | | | |
| Retail financing | $ 0.3 | $ 6.3 | $ — | $ 6.3 | $ 5.7 |
| Wholesale financing | — | 0.6 | — | 0.6 | 0.5 |
| Finance receivables | 0.3 | 6.9 | — | 6.9 | 6.2 |
| Net investment in operating leases | — | — | — | — | — |
| Total Non-VIE | $ 0.3 | $ 6.9 | $ — | $ 6.9 | $ 6.2 |
| **Total securitization transactions** | | | | | |
| Retail financing | $ 2.1 | $ 38.9 | $ 0.2 | $ 38.7 | $ 33.4 |
| Wholesale financing | 1.2 | 24.5 | — | 24.5 | 12.0 |
| Finance receivables | 3.3 | 63.4 | 0.2 | 63.2 | 45.4 |
| Net investment in operating leases | 0.5 | 11.5 | — | 11.5 | 7.2 |
| Total securitization transactions | $ 3.8 | $ 74.9 | $ 0.2 | $ 74.7 | $ 52.6 |

__________
(a) Unearned interest supplements and residual support are excluded from securitization transactions.
(b) Includes assets to be used to settle the liabilities of the consolidated VIEs.
(c) Includes unamortized discount and debt issuance costs.

## NOTE 7. TRANSFERS OF RECEIVABLES *(Continued)*

| | 2018 | | | | |
|---|---|---|---|---|---|
| | | Finance Receivables and Net Investment in Operating Leases (a) | | | |
| | Cash and Cash Equivalents | Before Allowance for Credit Losses | Allowance for Credit Losses | After Allowance for Credit Losses | Related Debt (c) |
| **VIE (b)** | | | | | |
| Retail financing | $ 1.9 | $ 34.0 | $ 0.2 | $ 33.8 | $ 29.2 |
| Wholesale financing | 0.3 | 24.9 | — | 24.9 | 13.9 |
| Finance receivables | 2.2 | 58.9 | 0.2 | 58.7 | 43.1 |
| Net investment in operating leases | 0.5 | 16.3 | — | 16.3 | 10.2 |
| Total VIE | $ 2.7 | $ 75.2 | $ 0.2 | $ 75.0 | $ 53.3 |
| **Non-VIE** | | | | | |
| Retail financing | $ 0.3 | $ 6.7 | $ — | $ 6.7 | $ 5.9 |
| Wholesale financing | — | 0.8 | — | 0.8 | 0.6 |
| Finance receivables | 0.3 | 7.5 | — | 7.5 | 6.5 |
| Net investment in operating leases | — | — | — | — | — |
| Total Non-VIE | $ 0.3 | $ 7.5 | $ — | $ 7.5 | $ 6.5 |
| **Total securitization transactions** | | | | | |
| Retail financing | $ 2.2 | $ 40.7 | $ 0.2 | $ 40.5 | $ 35.1 |
| Wholesale financing | 0.3 | 25.7 | — | 25.7 | 14.5 |
| Finance receivables | 2.5 | 66.4 | 0.2 | 66.2 | 49.6 |
| Net investment in operating leases | 0.5 | 16.3 | — | 16.3 | 10.2 |
| Total securitization transactions | $ 3.0 | $ 82.7 | $ 0.2 | $ 82.5 | $ 59.8 |

__________
(a) Unearned interest supplements and residual support are excluded from securitization transactions.
(b) Includes assets to be used to settle the liabilities of the consolidated VIEs.
(c) Includes unamortized discount and debt issuance costs.

Interest expense related to securitization debt for the years ended December 31 was as follows (in millions):

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| VIE | $ 671 | $ 827 | $ 1,220 |
| Non-VIE | 102 | 128 | 177 |
| Total securitization transactions | $ 773 | $ 955 | $ 1,397 |

Certain of our securitization entities may enter into derivative transactions to mitigate interest rate exposure, primarily resulting from fixed-rate assets securing floating-rate debt and, in certain instances, currency exposure resulting from assets in one currency and debt in another currency. In certain instances, the counterparty enters into offsetting derivative transactions with us to mitigate its interest rate risk resulting from derivatives with our securitization entities. These related derivatives are not the obligations of our securitization entities. See Note 9 for additional information regarding the accounting for derivatives. Our exposures based on the fair value of derivative instruments with external counterparties related to securitization programs at December 31 were as follows (in millions):

| | 2017 | | 2018 | |
|---|---|---|---|---|
| | Derivative Asset | Derivative Liability | Derivative Asset | Derivative Liability |
| Derivatives of the VIEs | $ 64 | $ 2 | $ 27 | $ 24 |
| Derivatives related to the VIEs | 23 | 29 | 12 | 11 |
| Other securitization related derivatives | 34 | — | 31 | 14 |
| Total exposures related to securitization | $ 121 | $ 31 | $ 70 | $ 49 |

## NOTE 7. TRANSFERS OF RECEIVABLES *(Continued)*

Derivative expense / (income) related to our securitization transactions for the years ended December 31 was as follows (in millions):

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| Derivatives of the VIEs | $ 23 | $ (38) | $ 30 |
| Derivatives related to the VIEs | (4) | (6) | (11) |
| Other securitization related derivatives | 10 | (16) | (2) |
| Total derivative expense / (income) related to securitization | $ 29 | $ (60) | $ 17 |

## NOTE 8. VARIABLE INTEREST ENTITIES

A VIE is an entity that either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of a controlling financial interest. A VIE is consolidated by its primary beneficiary. The primary beneficiary has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE. Nearly all of our VIEs are special purpose entities used for our securitizations.

We have the power to direct significant activities of our special purpose entities when we have the ability to exercise discretion in the servicing of financial assets, issue additional debt, exercise a unilateral call option, add assets to revolving structures, or control investment decisions.

Assets recognized as a result of consolidating these VIEs do not represent additional assets that could be used to satisfy claims against our general assets. Liabilities recognized as a result of consolidating these VIEs do not represent additional claims on our general assets; rather, they represent claims against the specific assets of the consolidated VIEs.

We use special purpose entities to issue asset-backed securities in transactions to public and private investors. We have deemed most of these special purpose entities to be VIEs of which we are the primary beneficiary. The asset-backed securities are backed by finance receivables and interests in net investments in operating leases. The assets continue to be consolidated by us. We retain interests in our securitization VIEs, including subordinated securities issued by the VIEs, rights to cash held for the benefit of the securitization investors, and rights 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.

The transactions create and pass along risks to the variable interest holders, depending on the assets securing the debt and the specific terms of the transactions. We aggregate and analyze the asset-backed securitization transactions based on the risk profile of the product and the type of funding structure, including:

- Retail financing – consumer credit risk and pre-payment risk;
- Wholesale financing – dealer credit risk and Ford risk, as the receivables owned by the VIEs primarily arise from the financing provided by us to Ford-franchised dealers; therefore, the collections depend upon the sale of Ford vehicles; and
- Net investment in operating leases – vehicle residual value risk, consumer credit risk, and pre-payment risk.

As residual interest holder, we are exposed to the underlying residual and credit risk of the collateral and are exposed to interest rate risk in some transactions. The amount of risk absorbed by our residual interests generally is represented by and limited to the amount of overcollateralization of the assets securing the debt and any cash reserves.

**NOTE 8. VARIABLE INTEREST ENTITIES *(Continued)***

We have no obligation to repurchase or replace any securitized asset that subsequently becomes delinquent in payment or otherwise is in default, except when representations and warranties about the eligibility of the securitized assets are breached, or when certain changes are made to the underlying asset contracts. Securitization investors have no recourse to us or our other assets and have no right to require us to repurchase the investments. We generally have no obligation to provide liquidity or contribute cash or additional assets to the VIEs and do not guarantee any asset-backed securities. We may be required to support the performance of certain securitization transactions, however, by increasing cash reserves.

VIEs that are exposed to interest rate or currency risk may reduce their risks by entering into derivative transactions. In certain instances, we have entered into derivative transactions with the counterparty to protect the counterparty from risks absorbed through its derivative transactions with the VIEs.

Although not contractually required, we regularly support our wholesale securitization programs by repurchasing receivables of a dealer from a VIE when the dealer's performance is at risk, which transfers the corresponding risk of loss from the VIE to us. In order to continue to fund the wholesale receivables, we also may contribute additional cash or wholesale receivables if the collateral falls below the required levels. The balances of cash related to these contributions were $0 at both December 31, 2017 and 2018, and ranged from $0 to $9 million during 2017 and $0 to $179 million during 2018.

See Note 7 for additional information on the financial position and financial performance of our VIEs and Note 9 for additional information regarding derivatives.

**NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**

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

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

We review our hedging program, derivative positions, and overall risk management strategy on a regular basis.

*Derivative Financial Instruments and Hedge Accounting.* Derivative assets and derivative liabilities are reported in *Derivative financial instruments* on our balance sheet at fair value and presented on a gross basis.

Our derivatives are over-the-counter customized derivative transactions and are not exchange traded. We estimate the fair value of these instruments using industry-standard valuation models such as a discounted cash flow. These models project future cash flows and discount the future amounts to a present value using market-based expectations for interest rates, foreign exchange rates, and the contractual terms of the derivative instruments. The discount rate used is the relevant interbank deposit rate (e.g., LIBOR) plus an adjustment for nonperformance risk. The adjustment reflects the full credit default swap ("CDS") spread applied to a net exposure, by counterparty, considering the master netting agreements and any posted collateral. We use our counterparty's CDS spread when we are in a net asset position and our own CDS spread when we are in a net liability position.

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

## NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(Continued)*

*Fair Value Hedges*. We use derivatives to reduce the risk of changes in the fair value of debt. We have designated certain receive-fixed, pay-float interest rate swaps as fair value hedges of fixed-rate debt. The risk being hedged is the risk of changes in the fair value of the hedged debt attributable to changes in the benchmark interest rate. If the hedge relationship is deemed to be highly effective, we report the changes in the fair value of the hedged debt related to the risk being hedged in *Debt* and *Interest expense*. Net interest settlements and accruals, and the fair value changes on hedging instruments are reported in *Interest expense*. The cash flows associated with fair value hedges are reported in *Net cash provided by / (used in) operating activities* in our statement of cash flows.

When a fair value hedge is de-designated, or when the derivative is terminated before maturity, the fair value adjustment to the hedged debt continues to be reported as part of the carrying value of the debt and is recognized in *Interest expense* over its remaining life.

*Derivatives Not Designated as Hedging Instruments.* We report net interest settlements and accruals and changes in the fair value of interest rate swaps not designated as hedging instruments in *Other income, net*. Foreign currency revaluation on accrued interest along with gains and losses on foreign exchange contracts and cross currency interest rate swaps are reported in *Other income, net.* Cash flows associated with non-designated or de-designated derivatives are reported in *Net cash provided by / (used in) investing activities* in our statement of cash flows.

### Income Effect of Derivative Financial Instruments

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

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| **Fair value hedges** | | | |
| Interest rate contracts | | | |
| Net interest settlements and accruals on hedging instruments | $ 367 | $ 217 | $ 10 |
| Fair value changes on hedging instruments (a) | (120) | (268) | (155) |
| Fair value changes on hedged debt (a) | 124 | 267 | 153 |
| **Derivatives not designated as hedging instruments** | | | |
| Interest rate contracts | (9) | 58 | (84) |
| Foreign currency exchange contracts (b) | 179 | (150) | 163 |
| Cross-currency interest rate swap contracts | 398 | 103 | (244) |
| Total | $ 939 | $ 227 | $ (157) |

__________
(a) For 2016 and 2017, the fair value changes on hedging instruments and on hedged debt were reported in *Other income, net*; effective 2018, these amounts were reported in *Interest expense*.
(b) Reflects forward contracts between Ford Credit and an affiliated company.

## NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(Continued)*

### Balance Sheet Effect of Derivative Financial Instruments

Derivative assets and liabilities are reported on the balance sheet at fair value and are presented on a gross basis. The notional amounts of the derivative instruments do not necessarily represent amounts exchanged by the parties and are not a direct measure of our financial exposure. We also enter into master agreements with counterparties that may allow for netting of exposures in the event of default or breach of the counterparty agreement. Collateral represents cash received or paid under reciprocal arrangements that we have entered into with our derivative counterparties which we do not use to offset our derivative assets and liabilities.

The fair value of our derivative instruments and the associated notional amounts, presented gross, at December 31 were as follows (in millions):

| | 2017 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Notional | Fair Value of Assets | Fair Value of Liabilities | Notional | Fair Value of Assets | Fair Value of Liabilities |
| **Fair value hedges** | | | | | | |
| Interest rate contracts | $ 28,008 | $ 248 | $ 135 | $ 22,989 | $ 158 | $ 208 |
| **Derivatives not designated as hedging instruments** | | | | | | |
| Interest rate contracts | 60,504 | 276 | 137 | 76,904 | 235 | 274 |
| Foreign currency exchange contracts | 2,406 | 3 | 10 | 4,318 | 45 | 24 |
| Cross-currency interest rate swap contracts | 4,006 | 408 | 28 | 5,235 | 232 | 157 |
| Total derivative financial instruments, gross (a) (b) | $ 94,924 | $ 935 | $ 310 | $ 109,446 | $ 670 | $ 663 |

__________
(a) At December 31, 2017 and 2018, we held collateral of $15 million and $19 million, and we posted collateral of $38 million and $59 million, respectively.
(b) At December 31, 2017 and 2018, the fair value of assets and liabilities available for counterparty netting was $162 million and $233 million, respectively. All derivatives are categorized within Level 2 of the fair value hierarchy.

## NOTE 10. OTHER ASSETS AND OTHER LIABILITIES AND DEFERRED REVENUE

Other assets and other liabilities and deferred revenue consist of various balance sheet items that are combined for financial statement presentation due to their respective materiality compared with other individual asset and liability items.

Other assets at December 31 were as follows (in millions):

| | 2017 | 2018 |
|---|---|---|
| Accrued interest and other non-finance receivables | $ 1,117 | $ 1,080 |
| Collateral held for resale, at net realizable value, and other inventory | 780 | 877 |
| Prepaid reinsurance premiums and other reinsurance recoverables | 611 | 658 |
| Deferred charges – income taxes | 247 | 216 |
| Property and equipment, net of accumulated depreciation (a) | 177 | 192 |
| Restricted cash | 124 | 140 |
| Investment in non-consolidated affiliates | 107 | 123 |
| Deferred charges | 127 | 96 |
| Other | 39 | 74 |
| Total other assets | $ 3,329 | $ 3,456 |

__________
(a) Accumulated depreciation was $354 million and $367 million at December 31, 2017 and 2018, respectively.

Other liabilities and deferred revenue at December 31 were as follows (in millions):

| | 2017 | 2018 |
|---|---|---|
| Unearned insurance premiums and fees | $ 723 | $ 775 |
| Interest payable | 722 | 752 |
| Income tax and related interest (a) | 301 | 369 |
| Deferred revenue | 148 | 113 |
| Payroll and employee benefits | 68 | 70 |
| Other | 310 | 228 |
| Total other liabilities and deferred revenue | $ 2,272 | $ 2,307 |

__________
(a) Includes tax and interest payable to affiliated companies of $99 million and $193 million at December 31, 2017 and 2018, respectively.

We have investments in entities for which we do not have the ability to exercise significant influence and fair values are not readily available. We have elected to record these investments at cost (less impairment, if any), adjusted for changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. We report the carrying value of these investments in *Other assets* in our consolidated balance sheet. These investments were $7 million and $9 million at December 31, 2017 and December 31, 2018, respectively. There were no material adjustments to the fair values of these investments for the year ending December 31, 2018.

Deferred revenue balances presented above include amounts from contracts with customers primarily related to admission fee revenue on group financing products available in Argentina and were $124 million and $87 million at December 31, 2017 and December 31, 2018, respectively. Admission fee revenue on group financing products is generally recognized evenly over the term of the agreement, which is up to 84 months. Increases in the admission fee deferred revenue balance are the result of payments due during the current period in advance of satisfying our performance under the contract and decreases are a result of revenue recognized during the current period that was previously deferred.

## NOTE 11. DEBT AND COMMITMENTS

We have a commercial paper program with qualified institutional investors. We also obtain other short-term funding from the issuance of demand notes to retail investors through our demand notes program. We have certain securitization programs that issue short-term asset-backed debt securities that are sold to institutional investors. Bank borrowings by several of our international affiliates in the ordinary course of business are an additional source of short-term funding. We obtain long-term debt funding through the issuance of a variety of unsecured and asset-backed debt securities in the U.S. and international capital markets.

Asset-backed debt issued in securitizations is the obligation of the consolidated securitization entity that issued the debt and is payable only out of collections on the underlying securitized assets and related enhancements. This asset-backed debt is not the obligation of Ford Credit or our other subsidiaries.

Debt is reported on our balance sheet at par value adjusted for unamortized discount or premium, unamortized issuance costs, and adjustments related to designated fair value hedging (see Note 9 for additional information). Debt due within one year at issuance is classified as short-term. Debt due after one year at issuance is classified as long-term. Discounts, premiums, and costs directly related to the issuance of debt are capitalized and amortized over the life of the debt or to the put date and are recorded in *Interest expense* using the effective interest method. Gains and losses on the extinguishment of debt are recorded in *Other income, net.*

Debt outstanding and interest rates at December 31 were as follows (in millions):

| | Debt | | Interest Rates | | | |
|---|---|---|---|---|---|---|
| | | | Average Contractual | | Average Effective | |
| | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| **Short-term debt** | | | | | | |
| Unsecured debt | | | | | | |
| Floating rate demand notes | $ 5,660 | $ 5,880 | | | | |
| Commercial paper | 4,889 | 3,749 | | | | |
| Other short-term debt | 5,890 | 4,213 | | | | |
| Asset-backed debt | 786 | 943 | | | | |
| Total short-term debt | 17,225 | 14,785 | 3.0% | 3.5% | 3.0% | 3.5% |
| **Long-term debt** | | | | | | |
| Unsecured debt | | | | | | |
| Notes payable within one year | 13,298 | 14,373 | | | | |
| Notes payable after one year | 55,687 | 52,409 | | | | |
| Asset-backed debt | | | | | | |
| Notes payable within one year | 17,817 | 22,130 | | | | |
| Notes payable after one year | 34,051 | 36,844 | | | | |
| Unamortized (discount) / premium | (1) | 2 | | | | |
| Unamortized issuance costs | (228) | (211) | | | | |
| Fair value adjustments (a) | (21) | (186) | | | | |
| Total long-term debt | 120,603 | 125,361 | 2.5% | 2.8% | 2.6% | 2.8% |
| Total debt | $ 137,828 | $ 140,146 | 2.6% | 2.8% | 2.6% | 2.9% |
| | | | | | | |
| Fair value of debt | $ 139,677 | $ 138,888 | | | | |
| **Interest rate characteristics of debt payable after one year** | | | | | | |
| Fixed interest rate | 65,569 | 61,749 | | | | |
| Variable interest rate (generally based on LIBOR or other short-term rates) | 24,169 | 27,504 | | | | |
| Total payable after one year | $ 89,738 | $ 89,253 | | | | |

(a) These adjustments relate to designated fair value hedges. The carrying value of hedged debt was $39.0 billion and $38.0 billion at December 31, 2017 and 2018, respectively.

**NOTE 11. DEBT AND COMMITMENTS *(Continued)***

With the exception of commercial paper, which is issued at a discount, the average contractual rates reflect the stated contractual interest rate. Average effective rates reflect the average contractual interest rate plus amortization of discounts, premiums, and issuance fees. Fair value adjustments relate to designated fair value hedges of unsecured debt.

We measure debt at fair value for purposes of disclosure using quoted prices for our own debt with approximately the same remaining maturities. 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 that book value is a reasonable approximation of the debt's fair value. The fair value of debt is categorized within Level 2 of the hierarchy. The fair value of debt includes $16.4 billion and $13.8 billion of short-term debt at December 31, 2017 and 2018, respectively, carried at cost, which approximates fair value. We paid interest of $2.4 billion, $2.9 billion, and $3.5 billion in 2016, 2017, and 2018, respectively, on debt.

Other short-term debt with affiliated companies was $72 million and $80 million at December 31, 2017 and 2018, respectively. Interest expense with affiliated companies is reported in *Interest expense* and was immaterial during the respective periods.

**Maturities**

Debt maturities at December 31, 2018 were as follows (in millions):

| | 2019 (a) | 2020 | 2021 | 2022 | 2023 | Thereafter (b) | Total |
|---|---|---|---|---|---|---|---|
| Unsecured debt | $ 28,215 | $ 15,073 | $ 15,288 | $ 8,343 | $ 5,895 | $ 7,810 | $ 80,624 |
| Asset-backed debt | 23,073 | 19,004 | 7,865 | 4,487 | 2,595 | 2,893 | 59,917 |
| Total | 51,288 | 34,077 | 23,153 | 12,830 | 8,490 | 10,703 | 140,541 |
| Unamortized discount | | | | | | | 2 |
| Unamortized issuance costs | | | | | | | (211) |
| Fair value adjustments | | | | | | | (186) |
| Total debt | | | | | | | $ 140,146 |

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(a) Includes $14,785 million for short-term and $36,503 million for long-term debt.
(b) Matures between 2024 and 2028.

**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 receivables or to purchase or make advances under asset-backed securities backed by retail or wholesale finance receivables or operating leases for proceeds of up to $35.4 billion ($17.4 billion of retail financing, $6.0 billion of wholesale financing, and $12.0 billion of operating leases) at December 31, 2018. 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 liquidity facilities have varying maturity dates, with $17.9 billion having maturities within the next twelve months and the remaining balance having maturities through 2020. We plan capacity renewals to protect our global funding needs, optimize capacity utilization, and maintain sufficient liquidity.

**NOTE 11. DEBT AND COMMITMENTS *(Continued)***

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, 2018, $20.7 billion of these commitments were in use. 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.

FCE Bank plc ("FCE") has pre-positioned retail receivables with the Bank of England which supports access to the Discount Window Facility. Pre-positioned assets are neither pledged to nor held as collateral by the Bank of England unless the Discount Window Facility is accessed.

**Unsecured Credit Facilities**

At December 31, 2018, we and our majority-owned subsidiaries had $6.0 billion of contractually committed unsecured credit facilities with financial institutions, including the FCE Credit Agreement, the Ford Bank Credit Agreement, and the allocation under Ford's corporate credit facility. At December 31, 2018, $5.3 billion was available for use.

FCE's £745 million (equivalent to $954 million at December 31, 2018) syndicated credit facility (the "FCE Credit Agreement") matures in 2021. At December 31, 2018, £505 million (equivalent to $646 million) was available for use. Ford Bank's €240 million (equivalent to $275 million at December 31, 2018) syndicated credit facility (the "Ford Bank Credit Agreement") matures in 2021. At December 31, 2018, all €240 million was available for use.

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.

Lenders under the Ford corporate credit facility have commitments totaling $13.4 billion, with 75% of the commitments maturing on April 30, 2023 and 25% of the commitments maturing on April 30, 2021. Ford has allocated $3.0 billion of commitments, including commitments under a Chinese renminbi sub-facility, to us on an irrevocable and exclusive basis to support our liquidity. At December 31, 2018, all $3.0 billion was available for use.

## NOTE 12. INCOME TAXES

Ford Motor Credit Company LLC is a disregarded entity for United States income tax purposes and Ford's consolidated United States federal and state income tax returns include certain of our domestic subsidiaries. In accordance with our intercompany tax sharing agreement with Ford, United States income tax liabilities or credits are allocated to us generally on a separate return basis calculated as if we were taxable as a corporation.

We account for U.S. tax on global intangible low-tax income in the period incurred.

The *Provision for income taxes* for the years ended December 31 was estimated as follows (in millions):

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| **Current** | | | |
| Federal | $ (41) | $ (6) | $ 72 |
| Non-U.S. | 222 | 241 | 153 |
| State and local | (15) | (9) | (81) |
| Total current | 166 | 226 | 144 |
| **Deferred** | | | |
| Federal | 284 | (1,016) | 283 |
| Non-U.S. | 1 | 30 | (125) |
| State and local | 55 | 63 | 101 |
| Total deferred | 340 | (923) | 259 |
| Provision for / (Benefit from) income taxes | $ 506 | $ (697) | $ 403 |

A reconciliation of the *Provision for income taxes* with the United States statutory tax rate as a percentage of *Income before income taxes* for the years ended December 31 is as follows:

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| U.S. statutory tax rate | 35.0% | 35.0 % | 21.0% |
| Effect of (in percentage points): | | | |
| Non-U.S. tax rates under U.S. rate | (3.8) | (4.0) | 1.7 |
| State and local income taxes | 1.3 | 1.5 | 0.6 |
| Dispositions and restructurings | — | — | (8.9) |
| U.S. tax on non-U.S. earnings | (4.9) | 15.6 | 0.4 |
| Enacted change in tax laws | — | (78.1) | — |
| Other | (0.7) | (0.2) | 0.5 |
| Effective tax rate | 26.9% | (30.2)% | 15.3% |

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was signed into law. This act includes, among other items, a permanent reduction to the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018, and requires immediate taxation of accumulated, unremitted non-U.S. earnings. As a result, at December 31, 2017, we recognized a tax benefit of $1.8 billion from revaluing U.S. net deferred tax liabilities and tax expense of $375 million to record U.S. tax on unremitted non-U.S. earnings.

At December 31, 2018, $3.1 billion of non-U.S. earnings are considered indefinitely reinvested in operations outside the United States, for which deferred taxes have not been provided. Repatriation of these earnings in their entirety would result in an incremental liability of about $110 million.

**NOTE 12. INCOME TAXES (*Continued*)**

Deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences that exist between the financial statement carrying value of assets and liabilities and their respective tax bases, and net operating loss carryforwards and tax credit carryforwards on a taxing jurisdiction basis. We measure deferred tax assets and liabilities using enacted tax rates that will apply in the years in which we expect the temporary differences to be recovered or paid.

Our accounting for deferred tax consequences represents our best estimate of the likely future tax consequences of events that have been recognized in our financial statements or tax returns and their future probability. In assessing the need for a valuation allowance, we consider both positive and negative evidence related to the likelihood of realization of the deferred tax assets. If, based on the weight of available evidence, it is more likely than not that the deferred tax assets will not be realized, we record a valuation allowance.

The components of deferred tax assets and liabilities at December 31 were as follows (in millions):

| | 2017 | 2018 |
|---|---|---|
| **Deferred tax assets** | | |
| Net operating loss carryforwards | $ 1,310 | $ 339 |
| Provision for credit losses | 204 | 175 |
| Other foreign | 79 | 106 |
| Employee benefit plans | 33 | 28 |
| Foreign tax credits | 1,244 | 1,297 |
| Other | 51 | 50 |
| Total gross deferred tax assets | 2,921 | 1,995 |
| Less: Valuation allowance | (68) | (81) |
| **Total net deferred tax assets** | 2,853 | 1,914 |
| **Deferred tax liabilities** | | |
| Leasing transactions | 4,017 | 3,126 |
| Finance receivables | 523 | 639 |
| Other foreign | 391 | 524 |
| Other | 61 | 4 |
| **Total deferred tax liabilities** | 4,992 | 4,293 |
| **Net deferred tax liability** | $ 2,139 | $ 2,379 |

At December 31, 2018, we have a valuation allowance of $81 million for deferred tax assets primarily related to our Mexico operations.

In accordance with our intercompany tax sharing agreement with Ford, United States income tax liabilities or credits are allocated to us, generally on a separate return basis. In this regard, the deferred tax assets related to foreign tax credits and net operating loss carryforwards represent amounts primarily due from Ford. We reflect a deferred asset for foreign tax credits within our balance sheet due to our tax sharing agreement with Ford which provides for full reimbursement for the use of these credits. We reflect a deferred asset for net operating loss carryforwards due to our profit history and expected reversal of our deferred tax liability. Under our tax sharing agreement with Ford, we are generally paid for these assets at the earlier of our use on a separate return basis or their expiration.

Operating loss carryforwards for tax purposes were $1.1 billion at December 31, 2018, resulting in a deferred tax asset of $339 million. These losses begin to expire in 2019 with a substantial portion expiring in 2038. Tax benefits of net operating loss carryforwards and tax credit carryforwards are evaluated on an ongoing basis, including a review of historical and projected future operating results, the eligible carryforward period, and other circumstances.

## NOTE 12. INCOME TAXES (*Continued*)

In accordance with our intercompany tax sharing agreement with Ford, we earn interest on net tax assets and pay interest on certain tax liabilities. Interest earned is included in *Other income, net* while interest expense is included in *Interest expense* and the amounts were immaterial in 2017 and 2018.

The changes in the unrecognized tax benefits for the years ended December 31 were as follows (in millions):

| | 2017 | 2018 |
|---|---|---|
| Beginning balance | $ 80 | $ 90 |
| Increase - tax positions in prior periods | 18 | 28 |
| Increase - tax positions in current period | 1 | 7 |
| Decrease - tax positions in prior periods | (2) | (6) |
| Settlements | (7) | (1) |
| Lapse of statute of limitations | (7) | — |
| Foreign currency translation adjustments | 7 | (3) |
| Ending balance | $ 90 | $ 115 |

The amount of unrecognized tax benefits at December 31, 2017 and 2018 that would impact the effective tax rate if recognized was $85 million and $111 million, respectively. We do not believe it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease during the next twelve months.

Examinations by tax authorities have been completed through 2008 in Germany, 2011 in the United States, 2013 in Canada, and 2015 in the United Kingdom. We have settled our U.S. federal income tax matters related to tax years prior to 2012 in accordance with our intercompany tax sharing agreement with Ford.

We recognize income tax-related penalties in *Provision for / (Benefit from) income taxes* on our income statement. We recognize accrued interest expense related to unrecognized tax benefits in jurisdictions where we file tax returns separate from Ford in *Other income, net* on our income statement. For the years ended December 31, 2016, 2017, and 2018, we recorded net tax related interest income of $8 million, $5 million, and net tax related interest expense of $7 million, respectively, in our income statement. At December 31, 2017 and 2018, we recorded a net payable of $5 million and $7 million, respectively, for tax related interest in *Other liabilities and deferred income*.

We paid income taxes of $107 million, $220 million, and $188 million in 2016, 2017, and 2018, respectively.

## NOTE 13. ACCUMULATED OTHER COMPREHENSIVE INCOME / (LOSS)

The changes in the balance of *Accumulated Other Comprehensive Income / (Loss)* ("AOCI") attributable to Ford Credit for the years ended December 31 were as follows (in millions):

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| **Foreign currency translation** | | | |
| Beginning AOCI balance | $ (607) | $ (890) | $ (419) |
| Net gain / (loss) on foreign currency translation | (283) | 471 | (410) |
| Ending AOCI balance | $ (890) | $ (419) | $ (829) |

## NOTE 14. INSURANCE

We conduct insurance underwriting operations primarily through The American Road Insurance Company ("TARIC"). TARIC is a wholly owned subsidiary of Ford Credit operating in the United States and Canada. TARIC provides physical damage insurance coverage for Ford Credit financed vehicles at dealer locations and Ford and Lincoln vehicles in transit between final assembly plants and dealer locations. In addition, TARIC provides a variety of other insurance products and services to Ford and its affiliates, including contractual liability insurance on extended service contracts. TARIC provides commercial automobile and general liability insurance and surety bonds for Ford in the United States.

Insurance premiums earned are reported net of reinsurance as *Insurance premiums earned*. These premiums are earned over their respective policy periods. Physical damage insurance premiums, including premiums on vehicles financed at wholesale by us, are recognized as income on a monthly basis. Premiums from extended service plan contracts and other contractual liability coverages are earned over the life of the policy based on historical loss experience. Commissions and premium taxes are deferred and amortized over the term of the related policies on the same basis on which premiums are earned.

Reserves for insurance losses and loss adjustment expenses are established based on actuarial estimates and historical loss development patterns, which represents management's best estimate. If management believes the reserves do not reflect all losses due to changes in conditions, or other relevant factors, an adjustment is made based on management judgment.

Reinsurance activity primarily consists of ceding a majority of the contractual liability insurance business related to automotive extended service plan contracts for a ceding commission. Commissions on ceded amounts are earned on the same basis as related premiums. Reinsurance contracts do not relieve TARIC from its obligations to its policyholders. Failure of reinsurers to honor their obligations could result in losses to TARIC. Therefore, TARIC either directly or indirectly (via insurance brokers) monitors the underlying business and financial performance of the reinsurers. In addition, where deemed necessary, TARIC may require collateral or utilize multiple reinsurers to mitigate concentration risk.

### Insurance Assets

*Cash, cash equivalents, and marketable securities* related to insurance activities at December 31 were as follows (in millions):

| | 2017 | 2018 |
|---|---|---|
| Cash and cash equivalents | $ 162 | $ 59 |
| Marketable securities | 449 | 649 |
| Total cash, cash equivalents, and marketable securities | $ 611 | $ 708 |

TARIC is required by law to maintain deposits with regulatory authorities. These deposited securities totaled $12 million at both December 31, 2017 and 2018 and were included in *Marketable securities.*

Amounts paid to reinsurers relating to the unexpired portion of the underlying automotive service contracts, and amounts recoverable from reinsurers on unpaid losses, including incurred but not reported losses are reported in *Other assets*. Prepaid reinsurance premiums and other reinsurance recoverables were $611 million and $658 million at December 31, 2017 and 2018, respectively. This includes amounts ceded to Ford and its affiliates of $95 million and $97 million at December 31, 2017 and 2018, respectively.

### Insurance Liabilities

*Other liabilities and deferred income* includes unearned insurance premiums and fees of $723 million and $775 million at December 31, 2017 and 2018, respectively. This includes amounts from Ford and its affiliates of $621 million and $667 million at December 31, 2017 and 2018.

## NOTE 14. INSURANCE *(Continued)*

The reserve for reported insurance losses and an estimate of unreported insurance losses, based on past experience, was $8 million and $11 million at December 31, 2017 and 2018, respectively, and was included in *Other liabilities and deferred income*.

### Insurance Premiums

Insurance premiums written and earned for the years ended December 31 were as follows (in millions):

| | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|
| | Written | Earned | Written | Earned | Written | Earned |
| Direct | $ 371 | $ 298 | $ 385 | $ 320 | $ 392 | $ 346 |
| Assumed | — | — | — | — | — | — |
| Ceded | (215) | (142) | (227) | (162) | (225) | (179) |
| Net premiums | $ 156 | $ 156 | $ 158 | $ 158 | $ 167 | $ 167 |

The net premiums earned with Ford and its affiliates were $133 million, $154 million, and $176 million for the years ended December 31, 2016, 2017, and 2018, respectively.

### Insurance Expenses

Insurance underwriting losses and expenses are reported as *Insurance expenses*. The components of insurance expenses for the years ended December 31 were as follows (in millions):

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| Insurance losses | $ 146 | $ 143 | $ 101 |
| Loss adjustment expenses | 5 | 8 | 5 |
| Reinsurance income and other expenses, net | (26) | (27) | (29) |
| Insurance expenses | $ 125 | $ 124 | $ 77 |

*Insurance expenses* with Ford and its affiliates were $55 million, $63 million, and $71 million for the years ended December 31, 2016, 2017, and 2018, respectively.

*Insurance expenses* were reduced by ceded insurance expenses of $95 million, $104 million, and $114 million for the years ended December 31, 2016, 2017, and 2018, respectively.

## NOTE 15. OTHER INCOME, NET

Other income consists of various line items that are combined on the income statement due to their respective materiality compared with other individual income and expense items.

The amounts included in *Other income, net* for the years ended December 31 were as follows (in millions):

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| Gains / (Losses) on derivatives | $ 575 | $ 11 | $ (165) |
| Currency revaluation gains / (losses) | (575) | 44 | 12 |
| Interest and investment income (a) | 85 | 112 | 198 |
| Insurance fee income | 90 | — | — |
| Other | 155 | 83 | 35 |
| Total other income, net | $ 330 | $ 250 | $ 80 |

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(a) Includes interest income primarily on notes receivable from affiliated companies of $5 million, $9 million, and $10 million, for December 31, 2016, 2017, and 2018, respectively.

## NOTE 16. RETIREMENT BENEFITS

We are a participating employer in certain retirement plans that are sponsored by Ford. As described below, Ford allocates costs to us under these plans based on the total number of participating or eligible employees at Ford Credit. Further information about these sponsored plans is available in Ford's Annual Report on Form 10-K for the year ended December 31, 2018, filed separately with the Securities and Exchange Commission.

### Employee Retirement Plans

Benefits earned under certain Ford-sponsored retirement plans are generally based on an employee's length of service, salary, and contributions. The allocation amount can be impacted by key assumptions (e.g., discount rate and average rate of increase in compensation) that Ford uses in determining its retirement plan obligations.

Retirement plan costs allocated to Ford Credit for our employees participating in the Ford-sponsored defined benefit plans were $125 million, $56 million, and $55 million for the years ended December 31, 2016, 2017, and 2018, respectively. Allocated costs for defined contribution and savings plans were $5 million, $7 million, and $7 million for the years ended December 31, 2016, 2017, and 2018, respectively, and were charged to *Operating expenses*.

### Postretirement Health Care and Life Insurance Benefits

Postretirement health care and life insurance benefits are provided under certain Ford plans, which provide benefits to retired salaried employees in North America. Our employees generally may become eligible for these benefits if they retire while working for us; however, benefits and eligibility rules may be modified from time to time.

Postretirement health care and life insurance costs allocated to Ford Credit for our employees participating in the Ford-sponsored plans were $3 million, $3 million, and $4 million for the years ended December 31, 2016, 2017, and 2018, respectively, and were charged to *Operating expenses.*

## NOTE 17. SEGMENT AND GEOGRAPHIC INFORMATION

We conduct our financing operations directly and indirectly through our subsidiaries and affiliates. We offer substantially similar products and services throughout many different regions, subject to local legal restrictions and market conditions. We segment our business based on geographic regions: the Americas, Europe, and Asia Pacific. 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, are reflected in Unallocated Other. The following is a brief description of our segments:

- Americas Segment – United States, Canada, Mexico, Brazil, and Argentina
- Europe Segment – European region and South Africa
- Asia Pacific Segment – China and India

We review our business performance by segment on a managed basis. Receivables are presented on a managed basis, as it closely approximates the customer's outstanding balance on the receivables, which is the basis for earning revenue. Our managed receivables equal net finance receivables and net investment in operating leases, excluding unearned interest supplements and residual support, allowance for credit losses, and other (primarily accumulated supplemental depreciation).

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. We also adjust segment performance to reallocate interest expense among the segments reflecting debt and equity levels proportionate to their product risk.

## NOTE 17. SEGMENT AND GEOGRAPHIC INFORMATION *(Continued)*

Key operating data for our business segments for the years ended or at December 31 were as follows (in millions):

| | Americas | Europe | Asia Pacific | Total Segments | Unallocated Other (a) | Total |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| Total revenue (b) | $ 9,505 | $ 984 | $ 351 | $ 10,840 | $ 69 | $ 10,909 |
| Income before income taxes | 1,511 | 238 | 61 | 1,810 | 69 | 1,879 |
| Other disclosures: | | | | | | |
| Depreciation on vehicles subject to operating leases | 4,291 | 38 | — | 4,329 | — | 4,329 |
| Interest expense | 2,301 | 278 | 176 | 2,755 | — | 2,755 |
| Provision for credit losses | 494 | 29 | 24 | 547 | — | 547 |
| Net finance receivables and net investment in operating leases | 113,335 | 18,846 | 4,684 | 136,865 | (6,675) | 130,190 |
| Total assets | 119,012 | 21,755 | 5,322 | 146,089 | — | 146,089 |
| **2017** | | | | | | |
| Total revenue (b) | $ 9,928 | $ 981 | $ 468 | $ 11,377 | $ — | $ 11,377 |
| Income before income taxes | 1,795 | 329 | 85 | 2,209 | 101 | 2,310 |
| Other disclosures: | | | | | | |
| Depreciation on vehicles subject to operating leases | 4,091 | 44 | — | 4,135 | — | 4,135 |
| Interest expense | 2,641 | 257 | 277 | 3,175 | — | 3,175 |
| Provision for credit losses | 542 | 28 | 18 | 588 | — | 588 |
| Net finance receivables and net investment in operating leases | 118,392 | 24,957 | 7,152 | 150,501 | (7,837) | 142,664 |
| Total assets | 124,645 | 28,204 | 7,594 | 160,443 | — | 160,443 |
| **2018** | | | | | | |
| Total revenue (b) | $ 10,706 | $ 1,160 | $ 516 | $ 12,382 | $ — | $ 12,382 |
| Income before income taxes | 2,208 | 391 | 102 | 2,701 | (74) | 2,627 |
| Other disclosures: | | | | | | |
| Depreciation on vehicles subject to operating leases | 3,828 | 39 | — | 3,867 | — | 3,867 |
| Interest expense | 3,331 | 283 | 322 | 3,936 | (6) | 3,930 |
| Provision for credit losses | 497 | 20 | 15 | 532 | — | 532 |
| Net finance receivables and net investment in operating leases | 123,403 | 26,029 | 5,444 | 154,876 | (8,613) | 146,263 |
| Total assets | 128,498 | 27,804 | 5,907 | 162,209 | — | 162,209 |

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(a) *Net finance receivables* and *Net investment in operating leases* include unearned interest supplements and residual support, allowance for credit losses, and other (primarily accumulated supplemental depreciation).
(b) Total revenue for 2016 includes *Total financing revenue*, *Insurance premiums earned*, and *Other income, net*. For 2017 and 2018, Total revenue includes *Total financing revenue*, *Insurance premiums earned*, and *Fee based revenue and other*. The change in the definition of Total revenue is the result of our adoption of the new revenue recognition accounting standard as of January 1, 2017.

## NOTE 17. SEGMENT AND GEOGRAPHIC INFORMATION *(Continued)*

### Geographic Information

Key data, split geographically into the United States (which is our country of domicile), Canada, and All other, for the years ended or at December 31 were as follows (in millions):

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| **Total revenue (a)** | | | |
| United States | $ 8,151 | $ 8,378 | $ 9,043 |
| Canada | 1,093 | 1,193 | 1,315 |
| All other | 1,665 | 1,806 | 2,024 |
| Total revenue | $ 10,909 | $ 11,377 | $ 12,382 |
| **Net property and net investment in operating leases** | | | |
| United States | $ 24,199 | $ 23,162 | $ 24,057 |
| Canada | 2,873 | 3,302 | 3,155 |
| All other | 293 | 374 | 429 |
| Net property and net investment in operating leases | $ 27,365 | $ 26,838 | $ 27,641 |

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(a) Total revenue for 2016 includes *Total financing revenue*, *Insurance premiums earned*, and *Other income, net*. For 2017 and 2018, Total revenue includes *Total financing revenue*, *Insurance premiums earned*, and *Fee based revenue and other*. The change in the definition of Total revenue is the result of our adoption of the new revenue recognition accounting standard as of January 1, 2017.

## NOTE 18. SELECTED QUARTERLY FINANCIAL DATA (unaudited)

Selected financial data by calendar quarter were as follows (in millions):

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Full Year |
|---|---|---|---|---|---|
| **2017 (a)** | | | | | |
| Total revenue | $ 2,731 | $ 2,802 | $ 2,863 | $ 2,981 | $ 11,377 |
| Depreciation on vehicles subject to operating leases | (1,064) | (1,037) | (989) | (1,045) | (4,135) |
| Interest expense | (729) | (769) | (810) | (867) | (3,175) |
| Total financing margin and other revenue | 938 | 996 | 1,064 | 1,069 | 4,067 |
| Provision for credit losses | 152 | 99 | 169 | 168 | 588 |
| Net income | 333 | 446 | 414 | 1,814 | 3,007 |
| **2018** | | | | | |
| Total revenue | $ 3,020 | $ 3,099 | $ 3,081 | $ 3,182 | $ 12,382 |
| Depreciation on vehicles subject to operating leases | (1,028) | (963) | (907) | (969) | (3,867) |
| Interest expense | (912) | (997) | (989) | (1,032) | (3,930) |
| Total financing margin and other revenue | 1,080 | 1,139 | 1,185 | 1,181 | 4,585 |
| Provision for credit losses | 119 | 92 | 156 | 165 | 532 |
| Net income | 701 | 479 | 518 | 526 | 2,224 |

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(a) The fourth quarter 2017 net income includes favorable tax benefits of $1.4 billion related to U.S. tax legislation in the Tax Cuts and Jobs Act of 2017. See Note 12 for additional information.

## NOTE 19. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies primarily consist of lease commitments, guarantees and indemnifications, and litigation and claims.

### Lease Commitments

We have rental commitments for certain land, buildings, and equipment that expire over various contractual periods. Minimum non-cancelable operating lease commitments at December 31, 2018 were as follows (in millions):

| | 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter |
|---|---|---|---|---|---|---|
| Minimum rentals on operating leases | $ 19 | $ 14 | $ 11 | $ 10 | $ 9 | $ 34 |

Rental expense under cancelable and non-cancelable leases of $26 million, $26 million, and $28 million was recorded in *Operating expenses* for the years ended December 31, 2016, 2017, and 2018, respectively.

### Guarantees and Indemnifications

Guarantees and indemnifications are recorded at fair value at their inception. We regularly review our performance risk under these arrangements, and in the event it becomes probable we will be required to perform under a guarantee or indemnity, the amount of probable payment is recorded.

The maximum potential payments under these guarantees and limited indemnities totaled $52 million and $34 million at December 31, 2017 and 2018, respectively. Of these values, $44 million and $29 million at December 31, 2017 and 2018, respectively, were counter-guaranteed by Ford to us. There were no recorded liabilities related to guarantees and limited indemnities at December 31, 2017 and 2018.

In some cases, we have guaranteed debt and other financial obligations of outside third parties and unconsolidated affiliates, including Ford. Expiration dates vary, and guarantees will terminate on payment and/or cancellation of the underlying obligation. A payment by us would be triggered by failure of the guaranteed party to fulfill its obligation covered by the guarantee. In some circumstances, we are entitled to recover from a third party amounts paid by us under the guarantee. However, our ability to enforce these rights is sometimes stayed until the guaranteed party is paid in full, and may be limited in the event of insolvency of the third party or other circumstances.

In the ordinary course of business, we execute contracts involving indemnifications standard in the industry and indemnifications specific to a transaction. These indemnifications might include and are not limited to claims relating to any of the following: environmental, tax, and shareholder matters; intellectual property rights; governmental regulations and employment-related matters; dealer and other commercial contractual relationships; and financial matters, such as securitizations. Performance under these indemnities generally would be triggered by a breach of terms of the contract or by a third-party claim. While some of these indemnifications are limited in nature, many of them do not limit potential payment. Therefore, we are unable to estimate a maximum amount of future payments that could result from claims made under these unlimited indemnities.

### Litigation and Claims

Various legal actions, proceedings, and claims (generally, “matters”) are pending or may be instituted or asserted against us. These include but are not limited to matters arising out of governmental regulations; tax matters; alleged illegal acts resulting in fines or penalties; financial services; employment-related matters; dealer and other contractual relationships; personal injury matters; investor matters; and financial reporting matters. Certain of the pending legal actions are, or purport to be, class actions. Some of the matters involve or may involve claims for compensatory, punitive, or antitrust or other treble damages in very large amounts, sanctions, assessments, or other relief, which, if granted, would require very large expenditures.

**NOTE 19. COMMITMENTS AND CONTINGENCIES *(Continued)***

The extent of our financial exposure to these matters is difficult to estimate. Many matters do not specify a dollar amount for damages, and many others specify only a jurisdictional minimum. To the extent an amount is asserted, our historical experience suggests that in most instances the amount asserted is not a reliable indicator of the ultimate outcome.

We accrue for matters when losses are deemed probable and reasonably estimable. In evaluating matters for accrual and disclosure purposes, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood that we will prevail, and the severity of any potential loss. We reevaluate and update our accruals as matters progress over time.

For nearly all of our matters, where our historical experience with similar matters is of limited value (i.e., “non-pattern matters”), we evaluate the matters primarily based on the individual facts and circumstances. For non-pattern matters, we evaluate whether there is a reasonable possibility of a material loss in excess of any accrual that can be estimated. It is reasonably possible that some of the matters for which accruals have not been established could be decided unfavorably and could require us to pay damages or make other expenditures. On January 9, 2019, FCE Bank plc received a decision from the Italian Competition Authority, which included an assessment of a fine against FCE Bank plc in the amount of about $50 million. FCE plans to appeal the decision and the fine with the ultimate resolution of the material potentially taking several years. While we have determined that an adverse outcome is not probable, the reasonably possible loss could be up to the fine amount.

As noted, the litigation process is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. Our assessments are based on our knowledge and experience, but the ultimate outcome of any matter could require payment substantially in excess of the amount that we have accrued and/or disclosed.

**Exhibit 23**

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ford Motor Credit Company LLC Registration Statement Nos. 333-223639 and 333-229519 on Form S-3

We hereby consent to the incorporation by reference in the aforementioned Registration Statements of Ford Motor Credit Company LLC of our report dated February 21, 2019 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Detroit, Michigan
February 21, 2019

**Exhibit 24**

**FORD MOTOR CREDIT COMPANY LLC**

Certificate of Secretary

The undersigned, Marlene M. Martel, Secretary of FORD MOTOR CREDIT COMPANY LLC, a Delaware limited liability company (the "Company"), DOES HEREBY CERTIFY that the following resolutions were duly adopted by the Board of Directors of the Company by written consent dated as of February 19, 2019, and such resolutions have not been amended, modified, rescinded, or revoked and are in full force and effect on the date hereof.

WITNESS my hand and the seal of the Company this 21st day of February, 2019.

/s/ Marlene M. Martel
Marlene M. Martel
Secretary

(Company Seal)

**FORD MOTOR CREDIT COMPANY LLC**
**RESOLUTIONS**

RESOLVED, That preparation of an annual report of the Company on Form 10-K for the year ended December 31, 2018, including exhibits or financial statements and schedules and other documents in connection therewith (collectively, the "*Annual Report*"), to be filed with the Securities and Exchange Commission (the "*Commission*") under the Securities Exchange Act of 1934, as amended, be and it hereby is in all respects authorized and approved; that the directors and appropriate officers of the Company, and each of them, be and hereby are authorized to sign and execute on their own behalf, or in the name and on behalf of the Company, or both, as the case may be, such Annual Report, and any and all amendments thereto, with such changes therein as such directors and officers may deem necessary, appropriate or desirable, as conclusively evidenced by their execution thereof; and that the appropriate officers of the Company, and each of them, be and hereby are authorized to cause such Annual Report and any such amendments, so executed, to be filed with the Commission.

RESOLVED, That each officer and director who may be required to sign and execute such Annual Report or any amendment thereto or document in connection therewith (whether in the name and on behalf of the Company, or as an officer or director of the Company, or otherwise), be and hereby is authorized to execute a power of attorney appointing A.S. Galeano, M.M. Martel, D.W. McClelland, B.E. Schaaf, and D.J. Witten, and each of them, severally, as his or her true and lawful attorney or attorneys to sign in his or her name, place, and stead in any such capacity such Annual Report and any and all amendments thereto and documents in connection therewith, and to file the same with the Commission, each of said attorneys to have power to act with or without the other, and to have full power and authority to do and perform in the name and on behalf of each of said officers and directors who shall have executed such power of attorney, every act whatsoever which such attorneys, or any of them, may deem necessary, appropriate or desirable to be done in connection therewith as fully and to all intents and purposes as such officers or directors might or could do in person.

**POWER OF ATTORNEY WITH RESPECT TO ANNUAL REPORT OF FORD MOTOR CREDIT COMPANY LLC ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2018**

KNOW ALL MEN BY THESE PRESENTS that each person that is a director of FORD MOTOR CREDIT COMPANY LLC, does hereby constitute and appoint A.S. Galeano, M.M. Martel, D.W. McClelland, B.E. Schaaf, and D.J. Witten, and each of them, severally, as his or her true and lawful attorney and agent at any time and from time to time to do any and all acts and things and execute, in his or her name (whether on behalf of FORD MOTOR CREDIT COMPANY LLC, or as an officer or director of FORD MOTOR CREDIT COMPANY LLC, or by attesting the seal of FORD MOTOR CREDIT COMPANY LLC, or otherwise) any and all instruments which said attorney and agent may deem necessary or advisable in order to enable FORD MOTOR CREDIT COMPANY LLC to comply with the Securities Exchange Act of 1934, as amended, and any requirements of the Securities and Exchange Commission in respect thereof, in connection with the filing of the Annual Report of FORD MOTOR CREDIT COMPANY LLC on Form 10-K for the year ended December 31, 2018 and any and all amendments thereto, as heretofore duly authorized by the Board of Directors of FORD MOTOR CREDIT COMPANY LLC, including specifically but without limitation thereto, power and authority to sign his or her name (whether on behalf of FORD MOTOR CREDIT COMPANY LLC, or as an officer or director of FORD MOTOR CREDIT COMPANY LLC, or by attesting the seal of FORD MOTOR CREDIT COMPANY LLC, or otherwise) to such instruments and to such Annual Report and to any such amendments to be filed with the Securities and Exchange Commission, or any of the exhibits or financial statements and schedules filed therewith, and to file the same with the Securities and Exchange Commission; and such Director does hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Any one of said attorneys and agents shall have, and may exercise, all the powers hereby conferred.

IN WITNESS WHEREOF, each of the undersigned has signed his or her name hereto as of the 21st day of February, 2019.

/s/ N. Joy Falotico
N.J. Falotico

/s/ John T. Lawler
J.T. Lawler

/s/ David W. McClelland
D.W. McClelland

/s/ Brian E. Schaaf
B.E. Schaaf

/s/ Thomas C. Schneider
T.C. Schneider

/s/ David A. Webb
D.A. Webb

**Exhibit 31.1**

## CERTIFICATION

I, David W. McClelland, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2018 of Ford Motor Credit Company LLC;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 21, 2019

/s/ David W. McClelland
David W. McClelland
President and Chief Executive Officer

**Exhibit 31.2**

## CERTIFICATION

I, Brian E. Schaaf, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2018 of Ford Motor Credit Company LLC;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 21, 2019

/s/ Brian E. Schaaf
Brian E. Schaaf
Chief Financial Officer and Treasurer

**Exhibit 32.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, David W. McClelland, Chief Executive Officer of Ford Motor Credit Company LLC (the “Company”), hereby certify pursuant to Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, to which this statement is furnished as an exhibit (the “Report”), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 21, 2019

/s/ David W. McClelland
David W. McClelland
President and Chief Executive Officer

**Exhibit 32.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Brian E. Schaaf, Chief Financial Officer and Treasurer of Ford Motor Credit Company LLC (the "Company"), hereby certify pursuant to Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. the Company's Annual Report on Form 10-K for the year ended December 31, 2018, to which this statement is furnished as an exhibit (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 21, 2019

/s/ Brian E. Schaaf

Brian E. Schaaf

Chief Financial Officer and Treasurer