

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, 2012

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
(State of organization)
One American Road, Dearborn, Michigan
(Address of principal executive offices)

38-1612444
(I.R.S. employer identification no.)
48126
(Zip code)

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

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

<u>Title of each class</u>	<u>Name of each Exchange on which registered</u>
7 1/2% Continuously Offered Bonds for Retail Accounts due August 20, 2032	New York Stock Exchange

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 and posted on its Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). ☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐
(Do not check if a smaller reporting company)

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.

[Exhibit Index](#) begins on page [50](#)

FORD MOTOR CREDIT COMPANY LLC
ANNUAL REPORT ON FORM 10-K
For the Year Ended December 31, 2012

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PART I

ITEM 1. BUSINESS

Overview

Ford Motor Credit Company LLC (referred to herein as "Ford Credit", the "Company", "we", "our" or "us") 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 and 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 be found on the SEC's website located at www.sec.gov.

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 supplements and other support payments from Ford and affiliated companies on special-rate financing programs; and
- Payments made under wholesale and other dealer loan financing programs.

As a result of our financing activities, we have a large portfolio of finance receivables and leases which we classify into two segments: "consumer" and "non-consumer".

Finance receivables and leases in the consumer segment relate to products offered to individuals and businesses that finance the acquisition of vehicles from dealers for personal and commercial use. The financing products include retail installment sale contracts for new and used vehicles, and leases for new vehicles to retail customers, government entities, daily rental companies and fleet customers.

Finance receivables in the non-consumer segment relate primarily to products offered to automotive dealers. We make loans to dealers to finance the purchase of vehicle inventory (wholesale financing), improvements to dealership facilities, working capital, and the purchase of dealership real estate. We also purchase receivables generated by divisions and affiliates of Ford, primarily in connection with the sale of parts and accessories by Ford to dealers.

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 divide our business segments based on geographic regions: North America ("North America Segment") and International ("International Segment"). The North America Segment includes our operations in the United States and Canada. The International Segment includes our operations in all other countries in which we do business directly and indirectly. For additional financial information regarding our operations by business segments and operations by geographic regions, see Note 20 of our Notes to the Financial Statements.

North America Segment

Our United States operations accounted for 71% and 68% of our total managed receivables at year-end 2012 and 2011, respectively, and our Canadian operations accounted for about 11% of our total managed receivables at year-end 2012 and 2011. Managed receivables include net finance receivables and net investment in operating leases, excluding unearned interest supplements. For additional information on how we review our business performance, including on a managed basis, refer to the "Overview" section of Item 7 of Part II of our 10-K Report. Managed receivables are discussed further in the "Financial Condition" section of Item 7 of Part II of our 10-K Report.

Item 1. Business (Continued)

In the United States, under the Ford Credit and Lincoln Automotive Financial Services brand names, we provide financing services to and through dealers of Ford and Lincoln vehicles. In Canada, under the Ford Credit brand name, we provide financing services to and through dealers of Ford and Lincoln vehicles. We also provided financing of Mercury and non-Ford vehicles sold by these dealers and their affiliates. The results reported in Item 7 of Part II of our 10-K Report include Mercury, which Ford discontinued in 2010.

International Segment

Our International Segment includes operations in three main regions: Europe, Asia-Pacific Africa, and Latin America. Our Europe region is our largest international operation, accounting for about 16% and 19% of our total managed receivables at year-end 2012 and 2011, respectively. Within the International Segment our Europe region accounted for 85% and 86% of our managed receivables at year-end 2012 and 2011, respectively. Most of our European operations are managed through a United Kingdom-based subsidiary, FCE Bank plc ("FCE"), which operates in the United Kingdom and has branches in 10 other European countries. In addition, FCE has operating subsidiaries in Hungary, Poland, and the Czech Republic that provide a variety of wholesale, leasing and retail vehicle financing. Germany and the United Kingdom are our largest markets in Europe. About 70% of FCE's finance and lease receivables are from customers and dealers in Germany, the United Kingdom and France, about 15% are from customers and dealers in Italy and Spain, and about 1% are from customers and dealers in Greece, Ireland, and Portugal. FCE, through its Worldwide Trade Financing division, provides financing to distributors/importers in countries where typically there is no established local Ford presence. The Worldwide Trade Financing division currently provides financing in over 70 countries. In addition, other private label operations and alternative business arrangements exist in some European markets. In the Asia-Pacific Africa region, we operate in China. In the Latin America region, we operate in Mexico, Brazil, and Argentina. We have joint ventures with local financial institutions and other third parties in various locations around the world.

Dependence on Ford

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. 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, 2012 ("Ford's 2012 10-K Report"), filed separately with the SEC and incorporated by reference as an exhibit to our 2012 10-K Report (without financial statements and exhibits).

Ford has sponsored special-rate financing programs available only through us. Similar programs may be offered in the future. Under these programs, Ford makes interest supplements or other support payments to us. These programs increase our financing volume and share of financing sales of Ford vehicles. For additional information regarding interest supplements and other support costs earned from affiliated companies, see Note 19 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.

Item 1. Business (Continued)

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 alternatives to optimize our competitive position. Ford sponsored special-rate 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 purchasing retail installment sale and lease contracts for new and used vehicles mainly 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 credit 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 evaluate each credit application, the applicant, the terms of the proposed contract, credit bureau information, proprietary risk score and other information and decide whether to purchase the contract. Purchase decisions are made within a framework of Ford Credit's purchase quality guidelines 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 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. In the United States, retail installment sale contract terms for new vehicles range primarily from 24 to 72 months. The average original term of our retail installment sale contracts was 60 months and 59 months in the United States for contracts purchased in 2012 and 2011, respectively. 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 additional charges for mileage and excess wear and use, if any. Generally, we sell vehicles returned to us to Ford dealers and non-Ford dealers through auctions. Customers who choose our retail balloon product may also qualify for special-rate financing offers from Ford.

Item 1. Business (Continued)

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.

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 North America 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 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 by 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 acquisition cost 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, retail operating lease terms for new vehicles range primarily from 24 to 48 months. In 2012 and 2011, the average original lease term for contracts purchased was 30 months and 32 months, respectively.

Direct Financing Leases and Other Operating Lease Vehicle Financing

We offer vehicle-financing programs to retail and commercial customers including leasing companies, government entities and fleet customers. These financings include primarily lease plans for terms of 24 to 60 months. We have perfected security interests in financed vehicles in almost all instances and, where appropriate, an assignment of rentals under any related leases. 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 direct financing leases or net investment in operating leases in our financial statements. For certain commercial financing programs, we have alternative business arrangements whereby we provide marketing and sales support and funding is provided by a third party.

Non-Consumer Financing

Overview

We extend commercial 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 commercial lending request is evaluated, taking into consideration the borrower's financial condition, supporting security, and numerous other financial and qualitative factors. All credit exposures are reviewed at least annually. 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.

Item 1. Business (Continued)

Dealer Financing

Wholesale Financing. We offer a wholesale financing program for qualifying dealers to finance new and used vehicles held in inventory. 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 wholesale receivable, excluding the time the vehicle was in transit from the assembly plant to the dealership, was outstanding for 50 days in 2012 compared with 47 days in 2011. Our wholesale financing program includes financing of large multi-brand dealer groups that are some of our largest wholesale customers based on the amount financed.

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. Our 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 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 secured interests in other dealership assets. In addition, these loans are generally supported by personal guarantees from the individual owners of the dealership.

Other Financing

We also purchase receivables from Ford and its affiliates, primarily related to the sale of parts and accessories to dealers, receivables from Ford-related loans, and certain used vehicles from daily rental fleet companies.

Marketing and Special Programs

We actively market our financing products and services to automotive dealers and customers. Through personal sales contacts, targeted advertisements in trade publications, participation in dealer-focused conventions and organizations, and support from manufacturers, we seek to demonstrate to dealers the value of entering into a business relationship with us. 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. From time to time, 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, 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 financial 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

General. 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:

Item 1. Business (Continued)

- applying monthly payments from customers;
- contacting delinquent customers for payment;
- maintaining a security interest in the financed vehicle;
- providing billing statements to customers;
- responding to customer inquiries;
- releasing the secured interest on paid-off finance contracts;
- 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.

Servicing Activities - Consumer Credit. 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 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, we group contracts by risk category for collection. 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 about 1-2% 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, 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. Regional business center managers review, and generally must approve, payment extensions outside these guidelines.

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 systems also employ a web-based network of outside contractors who support the repossession process. We usually 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.

We manage the sale of repossessed vehicles and returned leased vehicles. Repossessed vehicles are reported in other assets on our balance sheet at values that approximate expected net auction proceeds. We inspect and recondition the vehicle to maximize the net auction value of the vehicle. Typically, repossessed vehicles are sold at open auctions. Returned leased vehicles are predominantly sold through an on-line re-marketing process, closed auctions in which only Ford dealers may participate, or at open auctions, in which any licensed dealer can participate.

Item 1. Business (Continued)

Wholesale and Commercial. 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. We provide services to fleet purchasers, leasing companies, daily rental companies, and other commercial customers. We generally review our exposure under these credit arrangements at least annually. In our international markets, this business is governed by the respective regional offices, executed within the local markets, and similar risk management principles are applied.

Insurance

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

- Contractual liability insurance on extended service contracts and, in the state of Florida, extended service plan contracts;
- Physical damage insurance covering vehicles at dealers' locations and vehicles in-transit between final assembly plants and dealers' locations;
- Physical damage/liability reinsurance covering Ford dealer daily rental vehicles; and
- Commercial automobile liability and general liability insurance to support Ford's business operations.

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. In addition, TARIC has provided to Ford and its subsidiaries various types of surety bonds, including bonds generally required as part of any appeals of litigation, financial guarantee bonds, and self-insurance workers' compensation bonds. Premiums from our insurance business generated approximately 1% of our total revenues in 2012 and 2011.

Employee Relations

Our worldwide full-time employees were approximately 6,300 and 6,500 at year-end 2012 and 2011, respectively. Most of our employees are salaried, and most 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, supervision and licensing under various federal, state, and local laws and regulations.

Item 1. Business (Continued)

Federal Regulation. We are subject to extensive federal regulation, including the Truth-in-Lending 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 finance transactions include the terms of repayment, the amount financed, the total finance charge and the annual percentage rate. For retail lease transactions, 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 enhanced accuracy in credit reporting content. We are also subject to the Servicemembers Civil Relief Act that prohibits us from charging interest in excess of 6% on transactions with customers who subsequently enter into full-time service with the military and request such interest rate modification, and limits our ability to collect future payments from lease customers who terminate their lease early. In addition, 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.

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. Moreover, several states have laws that limit interest rates on consumer financing. In periods of high interest rates, these 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, are regulated banking institutions and are required, among other things, to maintain minimum capital reserves. FCE is authorized by the U.K. Financial Services Authority ("FSA") to carry on a range of regulated activities within the U.K. and through its own branch and subsidiary network in 13 other European countries, and is subject to consolidated supervision by the FSA. FCE also holds a standard license under the U.K. Consumer Credit Act of 1974 and other licenses to conduct financing business in other European locations. Since 1993, FCE has obtained authorizations from the Bank of England (now the FSA) pursuant to the Banking Consolidation Directive entitling it to operate through a European branch network and operate branches in 10 other countries. In many other locations where we operate, governmental authorities require us to obtain equivalent banking licenses to conduct our business.

Regulatory Compliance Status

We believe that we maintain all material licenses and permits required for our current operations and are in compliance with all material 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, and 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 liquidity.

Item 1. Business (Continued)

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, consumer or data protection, or other regulations, refer to "Item 1A. Risk Factors".

Transactions with Ford and Affiliates

On November 6, 2008, we and Ford entered into an Amended and Restated Support Agreement ("Support Agreement"). Pursuant to the Support 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. A copy of the Support Agreement was filed as an exhibit to our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2008, and is incorporated by reference herein as an exhibit. No capital contributions have been made to us pursuant to the Support Agreement. In addition, we 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 2012 periods.

We entered into an Amended and Restated Agreement with Ford dated December 12, 2006, relating to our set-off arrangements and long-standing business practices with Ford, a copy of which was included in our Form 8-K dated the same date and is incorporated by reference herein as an exhibit. The principal terms of this agreement include the following:

- In certain circumstances, our obligations to Ford may be set-off against Ford's obligations to us;
- 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 and Ford agree to maintain our shareholder's interest at a commercially reasonable level to support the amount, quality and mix of our assets taking into account general business conditions affecting us;
- 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); and
- 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.

More information about transactions between us and Ford and other affiliates is contained in Note 19 of our Notes to the Financial Statements, "Business - Overview", "Business - Retail Financing", "Business - Non-Consumer Financing - Other Financing" and the description of Ford's business in Exhibit 99.

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 and Ford Credit:

Decline in industry sales volume, particularly in the United States or Europe, due to financial crisis, recession, geopolitical events, or other factors. In the fall of 2008, the global economy entered a financial crisis and severe recession, putting significant pressure on both Ford and the automotive industry generally. These economic conditions dramatically reduced automotive industry sales volume in the United States and Europe, in particular, and began to slow growth in other markets around the world. U.S. automotive industry sales volume declined from 16.5 million units in 2007 to 13.5 million units in 2008 and 10.6 million units in 2009, before rebounding slightly to 11.8 million units in 2010 and growing to 13 million units in 2011 and 14.8 million units in 2012. For the 19 markets Ford tracks in Europe, automotive industry sales volume declined from 18 million units in 2007 to 16.6 million units in 2008, 15.9 million units in 2009, 15.3 million units in 2010 and 2011, and 14 million units in 2012 with further decline likely in 2013.

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. If industry vehicle sales were to decline to levels significantly below Ford's planning assumption, particularly in the United States or Europe, due to financial crisis, recession, geopolitical events, or other factors, Ford's financial condition and results of operations would be substantially adversely affected.

Decline in Ford's market share or failure to achieve growth. To maintain competitive economies of scale and grow its global market share, Ford must grow its market share in fast-growing newly-developed and emerging markets, particularly in Asia Pacific, as well as maintain or grow market share in mature markets. Ford's market share in certain growing markets, such as China, is substantially lower than it is in mature markets. A significant decline in Ford's market share in mature markets or failure to achieve growth in newly-developing or emerging markets, whether due to capacity constraints, competitive pressures, protectionist trade policies, or other factors could have a substantial adverse effect on Ford's financial condition and results of operations.

Lower-than-anticipated market acceptance of Ford's new or existing products. Although Ford conducts extensive market research before launching new or refreshed vehicles, many factors both within and outside Ford's control affect the success of new or existing products in the marketplace. Offering highly desirable vehicles that customers want and value can mitigate the risks of increasing price competition and declining demand, but vehicles 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. For example, if a new model were to experience quality issues at the time of launch, the vehicle's perceived quality could be affected even after the issues had been corrected, resulting in lower sales volumes, market share, and profitability. In addition, with increased consumer interconnectedness through the internet and other media, mere allegations relating to quality, safety, fuel efficiency, corporate social responsibility or other key attributes can negatively impact market acceptance, even where such allegations prove to be inaccurate or unfounded.

Market shift away from sales of larger, more profitable vehicles beyond Ford's current planning assumption, particularly in the United States. A shift in consumer preferences away from larger, more profitable vehicles at levels beyond Ford's current planning assumption could result in an immediate and substantial adverse impact on Ford's financial condition and results of operations. For example, when gasoline prices in the United States spiked to more than \$4.00 per gallon in 2008 and the construction industry suddenly slowed, consumer preferences quickly and dramatically shifted away from larger, more profitable vehicles and into smaller vehicles. Ford estimates that shifting consumer preferences across all vehicle segments adversely impacted its Automotive operating pre-tax earnings and cash flow in 2008 by about \$1.3 billion. Although Ford now has a more balanced portfolio of small, medium, and large, cars, utilities, and trucks that generally are more fuel efficient and contribute higher margins than in 2008, as well as a lower cost structure, a shift in consumer preferences away from sales of larger, more profitable vehicles at levels greater than Ford's current planning assumption - whether because of spiking fuel prices, a decline in the construction industry, government actions or incentives, or other reasons - still could have a substantial adverse effect on Ford's financial condition and results of operations.

Item 1A. Risk Factors (Continued)

An increase in or continued volatility of fuel prices, or reduced availability of fuel. An increase in fuel prices, continued price volatility, or reduced availability of fuel, particularly in the United States, could result in further weakening of demand for relatively more-profitable large cars, utilities, and trucks, while increasing demand for relatively less-profitable small vehicles. Continuation or acceleration of such a trend beyond Ford's current planning assumption, or volatility in demand across segments, could have a substantial adverse effect on Ford's financial condition and results of operations.

Continued or 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 January 2013 report issued by IHS Automotive, the global automotive industry is estimated to have had excess capacity of 26 million units in 2012. 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. Continuation of or increased excess capacity could have a substantial adverse effect on Ford's financial condition and results of operations.

Fluctuations in foreign currency exchange rates, commodity prices, and interest rates. Ford and Ford Credit are exposed to a variety of market and asset risks, including the effects of changes in foreign currency exchange rates, commodity prices, 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. Nevertheless, changes in currency exchange rates, commodity prices, and interest rates cannot always be predicted or hedged. As a result, substantial unfavorable changes in foreign currency exchange rates, commodity prices, or interest rates could have a substantial adverse effect on Ford's and/or Ford Credit's financial condition and results of operations.

Adverse effects resulting from economic, geopolitical, or other events. 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 devastating impact on markets around the world. For example, the financial crisis that began in the United States in 2008 quickly spread to other markets; natural disasters in Japan and Thailand during 2011 caused production interruptions and delays not just in Asia Pacific but other regions around the world; and episodes of increased geopolitical tensions or acts of terrorism in the Middle East or elsewhere have at times caused adverse reactions that may spread to economies around the globe.

In 2013, concerns persist regarding the debt burden of certain of the countries that have adopted the euro currency ("euro area countries") and the ability of these countries to meet future financial obligations, as well as concerns regarding the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances of individual euro area countries. If a country within the euro area were to default on its debt or withdraw from the euro currency, or - in a more extreme circumstance - the euro currency were to be dissolved entirely, the impact on markets around the world, and on Ford's global business, could be immediate and significant. Such a scenario - or the perception that such a development is imminent - could adversely affect the value of euro-denominated assets and obligations. In addition, such a development could cause financial and capital markets within and outside Europe to constrict, thereby negatively impacting our ability to finance our business, and also could cause a substantial dip in consumer confidence and spending that could negatively impact sales of vehicles. Any one of these impacts could have a substantial adverse effect on Ford's and/or Ford Credit's financial condition and results of operations.

In addition, Ford 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 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.

Item 1A. Risk Factors (Continued)

Economic distress of suppliers that may require Ford to provide substantial financial support or take other measures to ensure supplies of components or materials and could increase costs, affect liquidity, or cause production constraints or disruptions. The automotive industry supply base has experienced increased economic distress due to the sudden and substantial drop in industry sales volumes beginning in 2008. Dramatically lower industry sales volume made existing debt obligations and fixed cost levels difficult for many suppliers to manage, increasing pressure on the supply base. As a result, suppliers not only were less willing to reduce prices, but some requested direct or indirect price increases as well as new and shorter payment terms. At times, Ford has had to provide financial assistance to key suppliers to ensure an uninterrupted supply of materials and components. In addition, where suppliers have exited certain lines of business or closed facilities due to the economic downturn or other reasons, Ford generally experiences additional costs associated with transitioning to new suppliers. Each of these factors could have a substantial adverse effect on Ford's financial condition and results of operations.

Work stoppages at Ford or supplier facilities or other limitations on production (whether as a result of labor disputes, natural or man-made disasters, tight credit markets or other financial distress, production constraints or difficulties, or other factors). A work stoppage or other limitation on production could occur at Ford or supplier 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, or as a result of supplier financial distress or other production constraints or difficulties, or for other reasons. Recent examples of situations that have affected industry production to varying degrees include: supplier financial distress due to reduced production volumes during the economic downturn in 2008 - 2009; capacity constraints as suppliers that restructured or downsized during the downturn work to satisfy growing industry volumes; short-term constraints on production as consumer preferences shift more fluidly across vehicle segments and features; and the impact on certain suppliers of natural disasters during 2011. As indicated, a work stoppage or other limitations on production at Ford or supplier facilities for any reason (including but not limited to labor disputes, natural or man-made disasters, tight credit markets or other financial distress, or production constraints or difficulties) could have a substantial adverse effect on Ford's financial condition and results of operations.

Single-source supply of components or materials. Many components used in Ford's vehicles are available only from a single supplier and 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.). In addition to the general risks described above regarding interruption of supplies, which are exacerbated in the case of single-source suppliers, the exclusive supplier of a key component potentially could exert significant bargaining power over price, quality, warranty claims, or other terms relating to a component.

Labor or other constraints on Ford's ability to maintain competitive cost structure. 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. Ford negotiated a four-year agreement with the UAW in 2011, and a new four-year agreement with the CAW in 2012. Although Ford has negotiated transformational agreements in recent years, these agreements provide guaranteed wage and benefit levels throughout the contract term and some degree of employment 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. For example, in October 2012 Ford announced its European transformation plan to address structural industry overcapacity. As announced, Ford intends to close three European manufacturing facilities, which would affect approximately 6,200 positions. Ford's intent to close its assembly plant in Genk, Belgium is subject to an information and consultation process with employee representatives, which Ford has commenced.

Substantial pension and postretirement health care and life insurance liabilities impairing liquidity or financial condition. Ford has qualified defined benefit retirement plans in the United States that cover 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 for plans that are not fully funded and will require additional cash contributions, which could impair Ford's liquidity.

Item 1A. Risk Factors (Continued)

Ford's U.S. defined benefit pension plans are subject to Title IV of the Employee Retirement Income Security Act of 1974 ("ERISA"). Under Title IV of ERISA, the Pension Benefit Guaranty Corporation ("PBGC") has the authority under certain circumstances or upon the occurrence of certain events to terminate an underfunded pension plan. One such circumstance is the occurrence of an event that unreasonably increases the risk of unreasonably large losses to the PBGC. Although Ford believes it is unlikely that the PBGC would terminate any of its plans, in the event that Ford's U.S. pension plans were terminated at a time when the liabilities of the plans exceeded the assets of the plans, Ford would incur a liability to the PBGC that could be equal to the entire amount of the underfunding.

Ford Credit is jointly and severally liable to the PBGC for certain Ford IRS-qualified U.S. defined benefit pension plan liabilities and to any trustee appointed if one or more of these pension plans were to be terminated by the PBGC in a distress termination. Ford Credit is liable to pay any plan deficiencies and could have a lien placed on its assets by the PBGC to collateralize this liability. Ford Credit's financial condition and ability to repay unsecured debt could be materially adversely affected if Ford Credit were required to pay some or all of these obligations.

At December 31, 2012, Ford's U.S. and worldwide (including U.S.) defined benefit pension plans were underfunded by a total of \$9.7 billion and \$18.7 billion, respectively. If Ford's cash flows and capital resources were insufficient to fund Ford's 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.

Worse-than-assumed economic and demographic experience for postretirement benefit plans (e.g., discount rates or investment returns). The measurement of Ford's obligations, costs, and liabilities associated with benefits pursuant to its 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). To the extent actual results are less favorable than Ford's assumptions, there could be a substantial adverse impact on Ford's financial condition and results of operations.

Restriction on use of tax attributes from tax law "ownership change." Section 382 of the U.S. Internal Revenue Code restricts the ability of a corporation that undergoes an ownership change to use its tax attributes, including net operating losses and tax credits ("Tax Attributes"). At December 31, 2012, Ford had Tax Attributes that would offset \$14.7 billion of taxable income. For these purposes, an ownership change occurs if 5 percent shareholders of an issuer's outstanding common stock, collectively, increase their ownership percentage by more than 50 percentage points over a rolling three-year period. In 2012, Ford renewed for an additional three-year period its tax benefit preservation plan (the "Plan") to reduce the risk of an ownership change under Section 382. Under the Plan, shares held by any person who acquires, without the approval of Ford's Board of Directors, beneficial ownership of 4.99% or more of Ford's outstanding Common Stock could be subject to significant dilution. Ford intends to seek shareholder approval of the renewal at its annual meeting in May 2013.

The discovery of defects in vehicles resulting in delays in new model launches, recall campaigns, or increased warranty costs. Meeting or exceeding many government-mandated safety standards is costly and often technologically challenging, especially where standards may conflict with the need to reduce vehicle weight in order to meet government-mandated emissions and fuel-economy standards. Government safety standards also 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. 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 costs associated with any protracted delay in new model launches necessary to remedy such defects, or the cost of recall campaigns or warranty costs to remedy such defects in vehicles that have been sold, could be substantial.

Increased safety, emissions, fuel economy, or other regulations resulting in higher costs, cash expenditures, and/or sales restrictions. The worldwide automotive industry is governed by a substantial amount of government regulation, which often differs by state, region, and country. Government regulation has arisen, and proposals for additional regulation are advanced, primarily out of concern for the environment (including concerns about the possibility of global climate change and its impact), vehicle safety, and energy independence. 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.

Item 1A. Risk Factors (Continued)

In recent years, Ford has made significant changes to its product cycle plan to improve the overall fuel economy of vehicles Ford produces, thereby reducing their GHG emissions. There are limits on Ford's ability to achieve fuel economy improvements over a given timeframe, 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 cost to comply with existing government regulations is substantial, and future, additional regulations could have a substantial adverse impact on Ford's financial condition and results of operations. In addition to governmental regulations, a number of influential organizations conduct public domain testing. Even as Ford continues to evolve its product line, aggressive changes in public domain testing requirements could have a negative influence on future sales.

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.

A change in requirements under long-term supply arrangements committing Ford to purchase minimum or fixed quantities of certain parts, or to pay a minimum amount to the seller ("take-or-pay" contracts). Ford has entered into a number of long-term supply contracts that require it to purchase a fixed quantity of parts to be used in the production of Ford's vehicles. If Ford's need for any of these parts were to lessen, Ford could still be required to purchase a specified quantity of the part or pay a minimum amount to the seller pursuant to the take-or-pay contract, which could have a substantial adverse effect on Ford's financial condition or results of operations.

Adverse effects on results from a decrease in or cessation or clawback of government incentives related to investments. 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 as Ford has increased its investment and manufacturing presence in Brazil, and Ford expects this favorable impact to continue for the next several years. 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, as well as Ford's ability to fund new investments.

Inherent limitations of internal controls impacting financial statements and safeguarding of assets. Ford's and Ford Credit's internal control over financial reporting and their respective operating internal controls may not prevent or detect misstatements or loss of assets because of inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Effective internal controls can provide only reasonable assurance with respect to financial statement accuracy and safeguarding of assets.

Cybersecurity risks to operational systems, security systems, or infrastructure owned by Ford, Ford Credit, or a third-party vendor or supplier. Interruptions, outages, or breaches of operational systems (including business, financial, accounting, data processing, in-vehicle, or manufacturing processes), security systems, or infrastructure, as a result of cyber incidents, could materially disrupt critical operations, disclose confidential intellectual property, and/or give rise to allegations of or result in a breach of data privacy or other regulations within or outside the United States.

Failure of financial institutions to fulfill commitments under committed credit and liquidity facilities. Under Ford's Credit Agreement dated December 15, 2006, as amended and restated on November 24, 2009 and as further amended ("Credit Agreement"), Ford is able to borrow, repay, and then re-borrow up to \$9.6 billion until the facilities thereunder terminate, largely in 2015. If the financial institutions that provide these or other committed credit facilities were to default on their obligation to fund the commitments, these facilities would not be available to Ford, which could substantially adversely affect Ford's liquidity and financial condition. In addition, at December 31, 2012, Ford Credit had \$31.5 billion of committed liquidity programs, asset-backed commercial paper, and credit facilities, of which \$18.2 billion were utilized leaving \$13.3 billion available for use for which Ford Credit pays commitment fees. To the extent the financial institutions that provide these committed facilities and programs were to default on their obligation to fund the commitments, these facilities and programs would not be available to Ford Credit.

Inability of Ford Credit to access debt, securitization, or derivative markets around the world at competitive rates or in sufficient amounts, due to credit rating downgrades, market volatility, market disruption, regulatory requirements, or other factors. Ford Credit's ability to obtain 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. In addition, Ford Credit may reduce the amount of receivables it purchases or originates if there were a significant decline in the demand for the types of securities it offers or Ford Credit was 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.

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, and quality or perceived quality, safety, fuel efficiency, or reliability of the vehicles. Actual return volumes may be higher than expected and can be influenced by contractual lease-end values relative to auction values, marketing programs for new vehicles, and general economic conditions. 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.

Increased competition from banks or other financial institutions 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 bank 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. This process has resulted in greater competition based on financing rates. In addition, Ford Credit may face increased competition on wholesale financing for Ford dealers. Competition from such institutions with lower borrowing costs may increase, which could substantially adversely affect Ford Credit's profitability and the volume of its business.

New or increased credit, consumer, or data protection or other regulations resulting in higher costs and/or additional financing restrictions. 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, supervision, and licensing under various federal, state, and local laws and regulations, including the federal Truth-in-Lending Act, Equal Credit Opportunity Act, and Fair Credit Reporting Act.

Item 1A. Risk Factors (Continued)

Congress also passed the Dodd-Frank Wall Street Reform and Consumer Financial Protection Act ("Act") in 2010 to reform practices in the financial services industries, including automotive financing and securitizations. The Act directs federal agencies to adopt rules to regulate the consumer finance industry and the capital markets and, among other things, gives the new Consumer Financial Protection Bureau broad rule-making authority for a wide range of consumer protection laws that will regulate consumer finance businesses, such as Ford Credit's retail automotive financing business. The Act also creates an alternative liquidation framework under which the Federal Deposit Insurance Corporation ("FDIC") may be appointed as receiver of a non-bank financial company if the U.S. Treasury Secretary (in consultation with the President of the United States) determines that the company is in default or danger of default and the resolution of the company under other applicable law (e.g., U.S. bankruptcy law) would have serious adverse effects on the financial stability of the United States. The FDIC's powers under this framework may vary from those of a bankruptcy court under U.S. bankruptcy law, which could adversely impact securitization markets, including Ford Credit's funding activities, regardless of whether Ford Credit ever is determined to be subject to the Act's alternative liquidation framework.

Federal agencies are given significant discretion in drafting the rules and regulations necessary to implement the Act, and, consequently, the effects of the Act on the capital markets and the consumer finance industry may not be known for years. The Act and its implementing rules and regulations could impose additional costs on Ford Credit and adversely affect its ability to conduct its business.

In some countries outside the United States, Ford Credit's subsidiaries are regulated banking institutions and are required, among other things, to maintain minimum capital reserves. In many other locations, governmental authorities require companies to have licenses in order to conduct financing businesses. Efforts to comply with these laws and regulations impose significant costs on Ford Credit, and affect the conduct of its business. Additional regulation could add significant cost or operational constraints that might impair Ford Credit's profitability.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have none to report.

ITEM 2. PROPERTIES

We own our world headquarters in Dearborn, Michigan. We lease our corporate offices in Brentwood, England, from an affiliate of Ford. Most of our automotive finance branches and business centers are located in leased properties. The continued use of any of these leased properties is not material to our operations. At December 31, 2012, our total future rental commitment under leases of real property was \$46 million.

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

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

Each of the U.S. 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 four specialty centers in North America that focus on specific activities:

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

In Europe, we have dealer and customer servicing activities in St. Albans, England, to service our U.K. dealers and customers, and in Cologne, Germany, to service our German dealers and customers. In smaller countries, we provide servicing through our local branches.

ITEM 3. LEGAL PROCEEDINGS

We are subject to legal actions, governmental investigations, and other proceedings and claims relating to state and federal laws concerning finance and insurance, employment-related matters, personal injury matters, investor matters, financial reporting matters, and other contractual relationships. Some of these matters are class actions or matters where the plaintiffs are seeking class action status. Some of these matters may involve claims for compensatory, punitive or treble damages and attorneys' fees in very large amounts, or request other relief which, if granted, would require very large expenditures. Our significant pending matter is summarized below:

Ford Motor Credit Company v. Sudesh Agrawal. On January 18, 2011, a state trial court judge in Cuyahoga County, Ohio certified a nationwide class action with an Ohio subclass in a counterclaim arising out of a collection action. Class claimants allege breach of contract, fraud, and statutory violations for Ford Credit's lease-end excess wear and use charges. Class claimants allege that the standard applied by Ford Credit in determining the condition of vehicles at lease-end is different than the standard set forth in claimants' leases. A three-member panel of the Court of Appeals of Ohio, Eighth Appellate District, affirmed nationwide class certification and certification of an Ohio subclass. Ford Credit is appealing the matter.

Litigation is subject to many uncertainties and the outcome is not predictable. It is reasonably possible that matters could be decided unfavorably to us. Although the amount of liability at December 31, 2012, with respect to litigation matters cannot be ascertained, we believe that any resulting liability should not materially affect our operations, financial condition, and 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 affect on our operations, financial condition, and liquidity. For a discussion of pending significant cases against Ford, see Item 3 in Ford's 2012 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, 2012, 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 2012, and there is no market for our Shares. We paid cash distributions of \$600 million and \$3 billion in 2012 and 2011, 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 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 and net investment in 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 net investment in 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-rate financing programs available exclusively through us; and
- the availability of cost-effective funding for the purchase of retail installment sale and lease contracts and to provide wholesale financing.

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 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 on a managed basis which includes the finance receivables and leases we own and securitized receivables and leases that remain on our balance sheet (includes other structured financings and factoring transactions that have features similar to securitization transactions) excluding unearned interest supplements related to finance receivables. To evaluate our performance we monitor a number of measures, such as delinquencies, repossession statistics, losses on repossessions, and the number of bankruptcy filings.

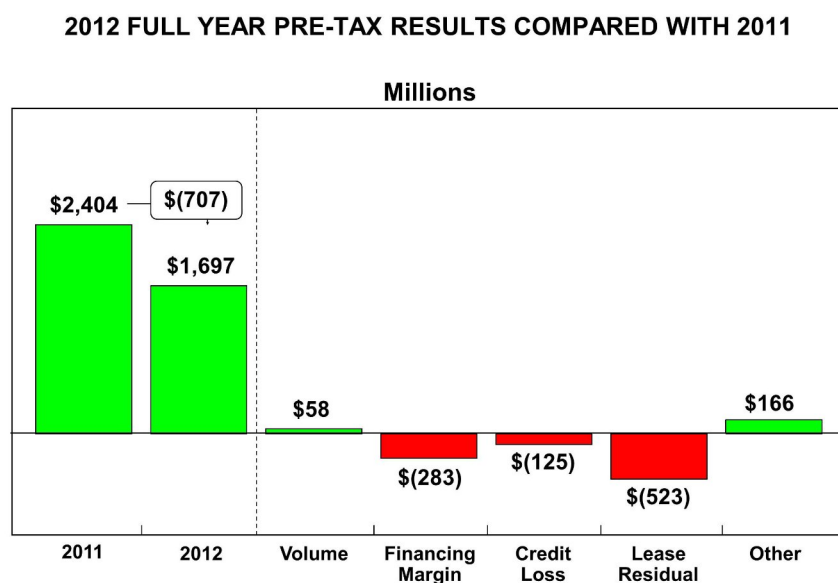
Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations (Continued)

We measure the performance of our North America Segment and our International Segment primarily on an income before income taxes basis, after excluding the impact to earnings from gains and losses related to market valuation adjustments to derivatives primarily related to movements in interest rates, because our risk management activities are carried out on a centralized basis at the corporate level, with only certain elements allocated to our two segments. For additional information regarding our segments, see Note 20 of our Notes to the Financial Statements.

Results of Operations

2012 Compared with 2011

On a pre-tax basis we earned \$1.7 billion in 2012, compared with \$2.4 billion in 2011. The following chart shows the decrease in pre-tax profit by causal factor:



The decline is more than explained by fewer leases being terminated, which resulted in fewer vehicles sold at a gain, and lower financing margin, as higher yielding assets originated in prior years run off.

Results of our operations by business segment and unallocated risk management for the years ending December 31 are shown below (in millions). For additional information, see Note 20 of our Notes to the Financial Statements.

	2012	2011	2012 Over/(Under) 2011
Income before income taxes			
North America Segment	\$ 1,550	\$ 2,159	\$ (609)
International Segment	249	371	(122)
Unallocated risk management	(102)	(126)	24
Income before income taxes	<u>\$ 1,697</u>	<u>\$ 2,404</u>	<u>\$ (707)</u>

North America Segment

The full year decrease in North America Segment pre-tax profits is more than explained by fewer lease terminations, which resulted in fewer vehicles sold at a gain, and lower financing margin as higher yielding assets originated in prior years run off.

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations (Continued)

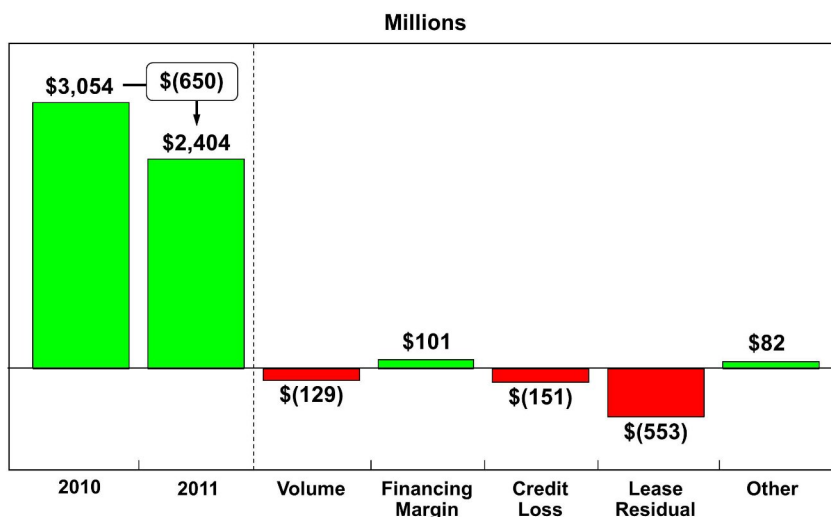
International Segment

The full year decrease in International Segment pre-tax profits is more than explained by the non-recurrence of 2011 foreign currency translation adjustments related to the discontinuation of financing in Australia, lower volume and unfavorable lease residual performance, offset partially by higher financing margin.

2011 Compared with 2010

On a pre-tax basis we earned \$2.4 billion in 2011, compared with \$3.1 billion in 2010. The following chart shows the decrease in pre-tax profit by causal factor:

2011 FULL YEAR PRE-TAX RESULTS COMPARED WITH 2010



The decline reflects fewer leases being terminated and the related vehicles sold at a gain, and lower credit loss reserve reductions.

Results of our operations by business segment and unallocated risk management for the years ending December 31 are shown below (in millions). For additional information, see Note 20 of our Notes to the Financial Statements.

	2011	2010	2011 Over/(Under) 2010
Income before income taxes			
North America Segment	\$ 2,159	\$ 2,785	\$ (626)
International Segment	371	354	17
Unallocated risk management	(126)	(85)	(41)
Income before income taxes	<u>\$ 2,404</u>	<u>\$ 3,054</u>	<u>\$ (650)</u>

The full year decrease in North America Segment pre-tax earnings is more than explained by fewer leases being terminated and the related vehicles sold at a gain, and lower credit loss reserve reductions.

The full year increase in International Segment pre-tax results is more than explained by foreign currency translation adjustments related to the discontinuation of financing in Australia.

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations (Continued)

Contract Placement Volume and Financing Share

Total worldwide consumer financing contract placement volumes for new and used vehicles for the years ending December 31 were as follows (in thousands):

	2012	2011	2010
North America Segment			
United States	978	870	713
Canada	114	111	113
Total North America Segment	1,092	981	826
International Segment			
Europe	392	382	354
Other international	58	57	38
Total International Segment	450	439	392
Total contract placement volume	1,542	1,420	1,218

Shown below are our financing shares of new Ford- and Lincoln-brand vehicles sold by dealers in the United States and new Ford brand vehicles sold by dealers in Europe for the years ending December 31. Also shown below are our wholesale financing shares of new Ford- and Lincoln-brand vehicles acquired by dealers in the United States, excluding fleet, and of new Ford-brand vehicles acquired by dealers in Europe for the years ending December 31:

	2012	2011	2010
United States			
Financing share - Ford and Lincoln			
Retail installment and lease	38%	36%	32%
Wholesale	78	80	81
Europe			
Financing share - Ford			
Retail installment and lease	32%	29%	26%
Wholesale	98	99	99

North America Segment

These increases primarily reflected higher Ford and Lincoln financing share and higher sales of new Ford and Lincoln vehicles. Higher Ford and Lincoln financing share was explained primarily by changes in Ford's marketing programs that favored us.

International Segment

In 2012, our total contract placement volumes were up from a year ago primarily reflecting higher financing share, mainly due to stronger marketing programs in Europe, offset largely by lower industry volumes.

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations (Continued)

Financial Condition

Finance Receivables and Operating Leases

Our receivables, including finance receivables and operating leases, at December 31 were as follows (in billions):

	2012	2011	2010
Receivables			
Finance receivables – North America Segment			
Consumer			
Retail installment and direct financing leases	\$ 39.5	\$ 38.4	\$ 39.1
Non-Consumer			
Wholesale	18.1	15.5	13.3
Dealer loan	1.4	1.1	1.1
Other	1.1	1.0	0.8
Total North America Segment – finance receivables (a)	60.1	56.0	54.3
Finance receivables – International Segment			
Consumer			
Retail installment and direct financing leases	9.0	9.1	10.6
Non-Consumer			
Wholesale	7.4	8.5	8.7
Dealer loan	0.1	—	—
Other	0.4	0.4	0.4
Total International Segment – finance receivables (a)	16.9	18.0	19.7
Unearned interest supplements	(1.5)	(1.6)	(1.9)
Allowance for credit losses	(0.4)	(0.5)	(0.8)
Finance receivables, net	75.1	71.9	71.3
Net investment in operating leases (a)	14.7	11.1	10.0
Total receivables (b)	\$ 89.8	\$ 83.0	\$ 81.3
Memo:			
Total managed receivables (c)	\$ 91.3	\$ 84.6	\$ 83.2

- (a) At December 31, 2012, 2011 and 2010, includes consumer receivables before allowance for credit losses of \$29.3 billion, \$36.0 billion, and \$35.8 billion respectively, and non-consumer receivables before allowance for credit losses of \$21.6 billion, \$19.8 billion and \$18.7 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, 2012, 2011 and 2010, includes net investment in operating leases before allowance for credit losses of \$6.3 billion, \$6.4 billion and \$6.2 billion, respectively, that have been included in securitization transactions but continue to be reported in our financial statements. The receivables are available only for payment of the debt and other obligations issued or arising in the 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 and other obligations issued or arising in each of these securitization transactions. For additional information on our securitization transactions, refer to the "Securitization Transactions" and "On-Balance Sheet Arrangements" sections of Item 7 of Part II of our 10-K Report and Note 6 of our Notes to the Financial Statements for the period ended December 31, 2012.
- (b) Includes allowance for credit losses of \$408 million, \$534 million and \$854 million at December 31, 2012, 2011 and 2010, respectively.
- (c) Excludes unearned interest supplements related to finance receivables.

Receivables at December 31, 2012 increased from year-end 2011, primarily driven by increases in wholesale receivables and net investment in operating leases.

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 risk has a significant impact on our business. We actively manage the credit risk of our consumer (retail installment and lease) and non-consumer (wholesale and dealer loan) segments to balance our level of risk and return. The allowance for credit losses (also referred to as the credit loss reserves) is our estimate of the probable credit losses inherent in receivables and leases at the date of our balance sheet. The allowance for credit losses is estimated using a combination of models and management judgment, and is based on such factors as portfolio quality, historical loss performance, and receivable levels. Consistent with our normal practices and policies, we assess the adequacy of our allowance for credit losses quarterly and regularly evaluate the assumptions and models used in establishing the allowance. A description of our allowance setting process is provided in the "Critical Accounting Estimates - Allowance for Credit Losses" section of Item 7 of Part II of our 10-K Report.

Most of our charge-offs are related to retail installment sale and lease contracts. Charge-offs result from 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 wholesale loans, but default rates for these receivables historically have been substantially lower than those for retail installment sale and lease contracts. For additional information on severity, refer to the "Critical Accounting Estimates - Allowance for Credit Losses" section of Item 7 of Part II of our 10-K Report.

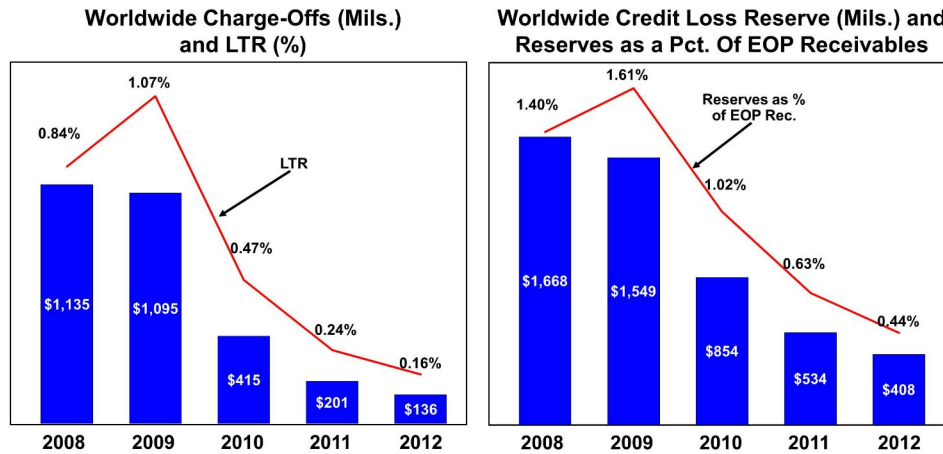
In purchasing retail finance and lease contracts, we use a proprietary scoring system that classifies contracts using several factors, such as credit bureau information, credit bureau scores (e.g., FICO score), and contract characteristics. In addition to our proprietary scoring system, we consider other factors, such as employment history, financial stability, and capacity to pay. At December 31, 2012 and 2011, between 5% - 6% of the outstanding U.S. retail finance and lease contracts in our portfolio were classified by us as high risk at contract inception. For additional information on the quality of our receivables, see Note 3 of our Notes to the Financial Statements.

Credit Loss Metrics

Worldwide

The following charts show annual trends of charge-offs (credit losses, net of recoveries), loss-to-receivables ratios (charge-offs divided by the average amount of receivables outstanding for the period, excluding the allowance for credit losses (credit loss reserves) and unearned interest supplements related to finance receivables), credit loss reserves, and our credit loss reserves as a percentage of end-of-period ("EOP") receivables:

HISTORICAL CREDIT LOSS METRICS



Our charge-offs are down from 2011, primarily reflecting lower repossessions in the United States and lower losses in all international regions, offset partially by lower recoveries in the United States. The loss-to-receivables ratio is about one-third lower than in 2011 and is the lowest since we started tracking LTRs more than thirty years ago.

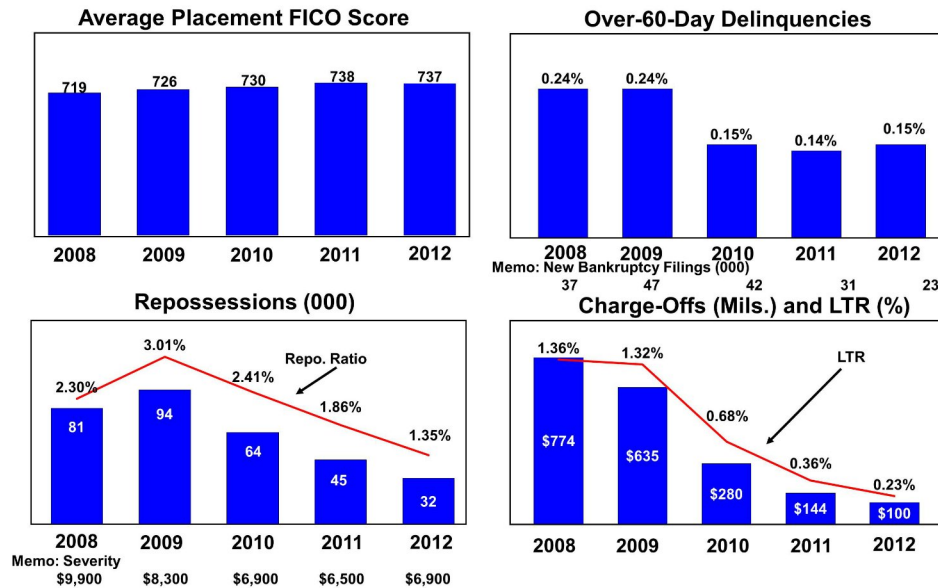
Reserves and reserves as a percent of EOP receivables are both lower than a year ago reflecting the decrease in charge-offs.

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations (Continued)

U.S. Ford and Lincoln Brand Retail Installment and Operating Lease

The following charts show the credit loss metrics for our U.S. Ford- and Lincoln-brand retail installment sale and operating lease portfolio, which comprised approximately 70% of our worldwide consumer portfolio at December 31, 2012:

HISTORICAL U.S. RETAIL AND LEASE CREDIT LOSS DRIVERS



The upper left box shows the stability of our average placement FICO, reflecting our commitment to maintaining consistent underwriting standards through all business cycles.

The remaining metrics indicate how our portfolio is performing. Over-60-day delinquencies remain flat.

Our repossession ratio for 2012 was 1.35% and the lowest since we started tracking this metric more than thirty years ago. Severity of \$6,900 in 2012 is in line with prior years.

Charge-offs and the loss-to-receivables ratio decreased from a year ago, primarily reflecting lower repossessions, offset partially by lower recoveries.

Residual Risk

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, industry-wide used vehicle prices, marketing incentive plans, and vehicle quality data.

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 of Item 7 of Part II of our 10-K Report.

North America Retail Operating Lease Experience

We use various statistics to monitor our residual risk:

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

The North America Segment accounted for 98% of Ford Credit's total operating leases at December 31, 2012. The following table shows operating lease placement, termination, and return volumes for this Segment for the years ending December 31 (in thousands, except for percentages):

	2012	2011	2010
Placements	257	219	120
Terminations	126	246	408
Returns	76	144	281

Memo:

Return rates	60%	59%	69%
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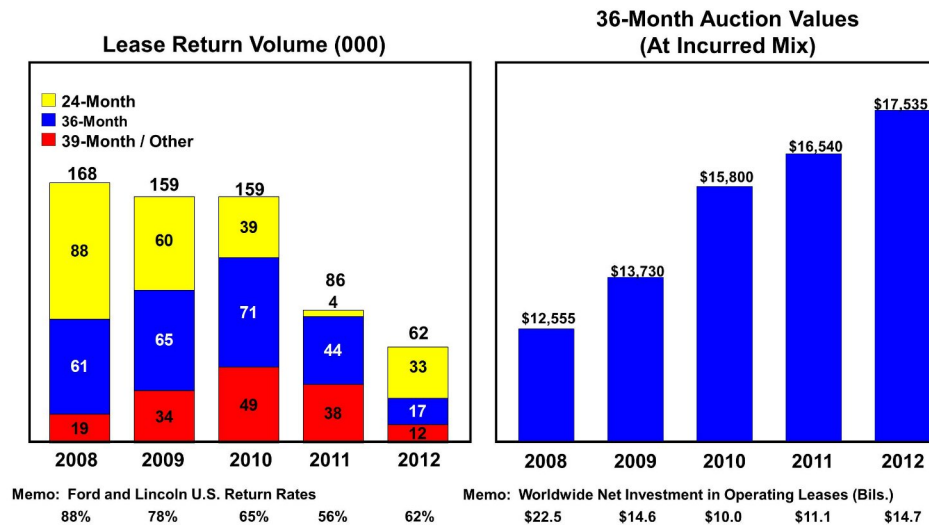
In 2012, placement volumes were up 38,000 units compared with 2011, primarily reflecting higher industry sales. Termination volumes decreased by 120,000 units compared with last year, reflecting lower placement volumes in 2009. Return volumes decreased 68,000 units compared with last year, primarily reflecting lower terminations.

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations (Continued)

U.S. Ford and Lincoln Brand Operating Lease Experience

The following chart shows annual return volumes and auction values at incurred vehicle mix for vehicles returned in the respective periods. In 2012, Ford Credit's U.S. lease originations represented about 15% of total U.S. retail sales of Ford- and Lincoln-brand vehicles, and the U.S. operating lease portfolio accounted for about 89% of our total investment in operating leases at December 31, 2012.

HISTORICAL U.S. LEASE RESIDUAL PERFORMANCE



Lease return volumes in 2012 were about 30% lower than 2011, primarily reflecting the lower lease placements in 2009. Our 2012 lease return rate was 62%, up 6 percentage points compared with 2011, reflecting a higher mix of 24-month contracts.

In 2012, our auction values for vehicles subject to 36-month leases continued to increase, up \$995 per unit from 2011. The increase primarily reflects vehicles with higher content including a higher mix of Lincolns.

Our worldwide net investment in operating leases was \$14.7 billion at the end of 2012, up from \$11.1 billion in 2011.

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations (Continued)

Credit Ratings

Our short-term and long-term debt is rated by four credit rating agencies designated as nationally recognized statistical rating organizations ("NRSROs") by the SEC:

- DBRS Limited ("DBRS");
- Fitch, Inc. ("Fitch");
- Moody's Investors Service, Inc. ("Moody's"); and
- Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("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 particular securities we issue, based on information provided by Ford, other sources, and us. 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. Lower credit ratings generally result in higher borrowing costs and reduced access to capital markets. Credit ratings assigned to us from all of the NRSROs are closely associated with their opinions on Ford.

In 2012, we achieved investment grade ratings from Fitch, Moody's and DBRS. In addition, S&P raised its outlook on us from stable to positive. The following chart summarizes changes in long-term senior unsecured credit ratings, short-term credit ratings, and the outlook assigned to us since January 2010 by these four NRSROs:

NRSRO RATINGS												
	DBRS			Fitch			Moody's			S&P		
Date	Long-Term	Short-Term	Trend	Long-Term	Short-Term	Outlook	Long-Term	Short-Term	Outlook	Long-Term	Short-Term	Outlook
Jan. 2010	B	R-5	Stable	B+	B	Positive	B3	NP	Review	B-	NR	Stable
Mar. 2010	B (high)	R-4	Positive	B+	B	Positive	B1	NP	Review	B-	NR	Stable
Apr. 2010	B (high)	R-4	Positive	BB-	B	Positive	B1	NP	Review	B-	NR	Positive
May 2010	B (high)	R-4	Positive	BB-	B	Positive	Ba3	NP	Stable	B-	NR	Positive
Aug. 2010	BB	R-4	Stable	BB-	B	Stable	Ba3	NP	Stable	B+	NR	Positive
Oct. 2010	BB	R-4	Stable	BB-	B	Stable	Ba2	NP	Stable	B+	NR	Positive
Jan. 2011	BB	R-4	Stable	BB-	B	Positive	Ba2	NP	Positive	B+	NR	Positive
Feb. 2011	BB	R-4	Stable	BB-	B	Positive	Ba2	NP	Positive	BB-	NR	Positive
Sep. 2011	BB (high)	R-4	Stable	BB-	B	Positive	Ba2	NP	Positive	BB-	NR	Positive
Oct. 2011	BB (high)	R-4	Stable	BB+	B	Positive	Ba1	NP	Positive	BB+	NR	Stable
Apr. 2012	BB (high)	R-4	Stable	BBB-	F3	Stable	Ba1	NP	Positive	BB+	NR	Stable
May 2012	BB (high)	R-4	Positive	BBB-	F3	Stable	Baa3	P-3	Stable	BB+	NR	Stable
Aug. 2012	BB (high)	R-4	Positive	BBB-	F3	Stable	Baa3	P-3	Stable	BB+	NR	Positive
Sep. 2012	BBB (low)	R-3	Stable	BBB-	F3	Stable	Baa3	P-3	Stable	BB+ (a)	NR	Positive

(a) S&P assigns FCE Bank plc ("FCE") a long-term senior unsecured credit rating of BBB-, maintaining a one-notch differential versus Ford Credit.

Funding

Overview

Our funding strategy remains focused on diversification and we plan to continue accessing a variety of markets, channels and investors. We completed our full-year 2012 funding plan, issuing over \$23 billion of public term funding. Our public unsecured issuance was over \$9 billion, including over \$700 million issued under the Ford Credit U.S. Retail Notes program. We also issued our first public investment grade unsecured debt transaction since 2005. Additionally, we launched an unsecured commercial paper program in the U.S., which has grown to about \$1.7 billion.

Our liquidity remains strong and we ended the year with \$19.7 billion of available liquidity and \$31.5 billion of committed capacity, compared with about \$17 billion and \$33 billion at December 31, 2011, respectively. For additional information on our committed capacity programs, refer to the "Liquidity" section.

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 reform efforts on the financial markets. Potential impacts of industry events and regulation on our ability to access debt and derivatives markets, or renew our committed liquidity programs in sufficient amounts and at competitive rates, represents another risk to our funding plan. As a result of such events or regulation, we may need to reduce new originations of receivables thereby reducing our ongoing profits and adversely affecting our ability to support the sale of Ford vehicles. Ford Credit is focused on maintaining liquidity levels that meet its business and funding requirements through economic cycles.

Funding Sources

Our funding sources include primarily securitization transactions (including other structured financings) and unsecured debt. We issue both short- 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- 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 of Item 7 of Part II of our 10-K Report.

We obtain short-term unsecured funding from the sale of floating rate demand notes under our Ford Interest Advantage program and by issuing unsecured commercial paper in the United States, Europe, Mexico, and other international markets. At December 31, 2012, 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, was \$4.9 billion. At December 31, 2012, the principal amount outstanding of our unsecured commercial paper was about \$1.7 billion which primarily represents issuance under our commercial paper program in the United States.

We do not hold reserves specifically to fund the payment of any of our unsecured short-term funding obligations. Instead, we maintain multiple sources of liquidity, including cash, cash equivalents, and marketable securities (excluding marketable securities related to insurance activities), unused committed liquidity programs, excess securitizable assets, and committed and uncommitted credit facilities, which should be sufficient to meet our unsecured short-term funding obligations.

Government-Sponsored Securitization Funding Programs

U.S. Federal Reserve's Term Asset-Backed Securities Loan Facility ("TALF"). TALF began in March 2009 to make credit available by restoring liquidity in the asset-backed securitization market. TALF expired in March 2010. At December 31, 2012, the outstanding balance of our asset-backed securities that were TALF-eligible at issuance was \$1.7 billion, compared with \$5.6 billion at December 31, 2011, reflecting the amortization of about \$3.9 billion through year-end 2012. The outstanding balance of our asset-backed securities that were TALF-eligible at issuance will decline to zero over time as the debt continues to amortize.

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations (Continued)

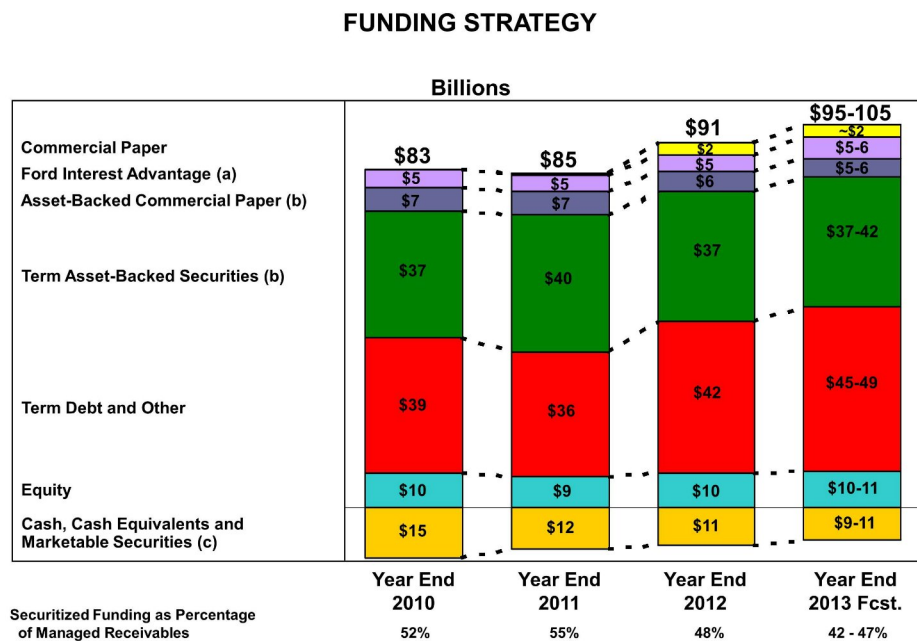
Cost of Funding Sources

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. Our floating rate demand notes funding costs change depending on market conditions.

In addition to enhancing our liquidity and diversifying our funding sources, one of the main reasons that securitization remains a primary funding source has been the cost advantage our securitization transactions offer over our unsecured long-term debt funding. As our credit ratings improve, we expect to increase the mix of unsecured funding. During 2012, the weighted average of the triple-A rated notes offered in our U.S. public retail securitization transactions ranged from 9 to 22 basis points over the relevant benchmark rates and our U.S. institutional unsecured long-term debt transaction spreads ranged from 199 to 338 basis points over the relevant benchmark rates.

Funding Portfolio

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



(a) The Ford Interest Advantage program consists of our floating rate demand notes.

(b) Obligations issued in securitization transactions that are payable only out of collections on the underlying securitized assets and related enhancements.

(c) Excludes marketable securities related to insurance activities.

At year-end 2012, managed receivables were \$91 billion and we ended the year with about \$11 billion in cash. Securitized funding was 48% of managed receivables, down from 55% at year-end 2011. This reflects a greater mix of unsecured debt given our improved credit spreads and the mandatory exchange of the \$2.5 billion of asset-backed Ford Upgrade Exchanged Linked ("FUEL") notes for the unsecured notes for Ford Credit, which was triggered by the upgrade to investment grade of Ford Credit's long-term, unsecured debt by two credit rating agencies during the second quarter of 2012.

We are projecting 2013 year-end managed receivables in the range of \$95 billion to \$105 billion and securitized funding is expected to represent about 42% to 47% of total managed receivables. It is our expectation that the securitized funding as a percent of managed receivables will decline going forward.

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations (Continued)

Public Term Funding Plan

The following table shows our planned issuances for full-year 2013, and our public term funding issuances in 2012, 2011, and 2010 (in billions):

	Public Term Funding Plan			
	2013 Forecast	2012	2011	2010
Unsecured	\$ 7-10	\$ 9	\$ 8	\$ 6
Securitizations (a)	10-14	14	11	11
Total	\$ 17-24	\$ 23	\$ 19	\$ 17

(a) Includes Rule 144A offerings.

In 2012, we completed over \$23 billion of public term funding in the United States, Canada and Europe, including over \$9 billion of unsecured debt and \$14 billion of securitizations.

For 2013, we project full-year public term funding in the range of \$17 billion to \$24 billion, consisting of \$7 billion to \$10 billion of unsecured debt and \$10 billion to \$14 billion of public securitizations. Through February 15, 2013, we completed about \$4 billion of public term funding transactions in the United States, Canada and Europe, including about \$2 billion of unsecured debt and \$2 billion of securitizations.

Liquidity

We define gross liquidity as cash, cash equivalents, and marketable securities (excluding marketable securities related to insurance activities) and capacity (which includes our credit facilities, FCAR Owner Trust retail securitization program ("FCAR"), and asset-backed funding facilities), 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). Liquidity available for use is defined as gross liquidity less asset-backed capacity in excess of eligible receivables.

The following table illustrates our liquidity programs and utilization at December 31 (in billions):

	2012	2011	2010
Liquidity Sources (a)			
Cash (b)	\$ 10.9	\$ 12.1	\$ 14.6
Unsecured credit facilities	0.9	0.7	1.1
FCAR bank lines	6.3	7.9	9.0
Conduit/Bank Asset-Backed Securitizations ("ABS")	24.3	24.0	24.2
Total liquidity sources	42.4	44.7	48.9
Utilization of Liquidity			
Securitization cash (c)	(3.0)	(3.7)	(4.2)
Unsecured credit facilities	(0.1)	(0.2)	(0.5)
FCAR bank lines	(5.8)	(6.8)	(6.7)
Conduit/Bank ABS	(12.3)	(14.5)	(8.6)
Total utilization of liquidity	(21.2)	(25.2)	(20.0)
Gross liquidity	21.2	19.5	28.9
Capacity in excess of eligible receivables	(1.5)	(2.4)	(6.3)
Liquidity available for use	\$ 19.7	\$ 17.1	\$ 22.6

(a) FCAR and conduits subject to availability of sufficient assets and ability to obtain derivatives to manage interest rate risk; FCAR commercial paper must be supported by bank lines equal to at least 100% of the principal amount; conduits include committed securitization programs.

(b) Cash, cash equivalents, and marketable securities (excludes marketable securities related to insurance activities).

(c) Securitization cash is to be used only to support on-balance sheet securitization transactions.

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations (Continued)

At December 31, 2012, we had \$42.4 billion of committed capacity and cash diversified across a variety of markets and platforms. The utilization of our liquidity totaled \$21.2 billion at year-end, compared with \$25.2 billion at year-end 2011. The decrease of \$4.0 billion reflects lower usage of our private conduits, FCAR outstanding commercial paper balance and securitized cash.

We ended 2012 with gross liquidity of \$21.2 billion. Capacity in excess of eligible receivables decreased to \$1.5 billion. This provides a funding source for future originations and flexibility to transfer capacity among markets and asset classes where most needed. Total liquidity available for use continues to remain strong at \$19.7 billion and \$2.6 billion higher than year-end 2011. We are focused on maintaining liquidity levels that meet our business and funding requirements through economic cycles.

Cash, Cash Equivalents, and Marketable Securities. At December 31, 2012, our cash, cash equivalents, and marketable securities (excluding marketable securities related to insurance activities) totaled \$10.9 billion, compared with \$12.1 billion at year-end 2011. 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 maintained primarily as highly liquid investments, which provide liquidity for our short-term funding needs and give us flexibility in the use of our other funding programs. Our cash, cash equivalents, and marketable securities are held primarily in highly liquid investments, which provide for anticipated and unanticipated cash needs. Our cash, cash equivalents, and marketable securities (excluding marketable securities related to insurance activities) primarily include U.S. Treasury obligations, federal agency securities, bank time deposits with investment-grade institutions and non-U.S. central banks, corporate investment-grade securities, A-1/P-1 (or higher) rated commercial paper, debt obligations of a select group of non-U.S. governments, non-U.S. government agencies, supranational institutions and money market funds that carry the highest possible ratings. We currently do not hold cash, cash equivalents, or marketable securities consisting of investments in government obligations of Greece, Ireland, Italy, Portugal, or Spain, nor did we hold any at December 31, 2012.

The average maturity of these investments ranges from 90 days to up to one year 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 include amounts to be used only to support our securitization transactions of \$3.0 billion and \$3.7 billion at December 31, 2012 and 2011, respectively.

Our substantial liquidity and cash balance have provided the opportunity to selectively call and repurchase our unsecured and asset-backed debt through market transactions. For full-year 2012, we repurchased and called an aggregate principal amount of \$628 million of our unsecured and asset-backed debt.

Committed Liquidity Programs. We and our subsidiaries, including FCE, have entered into agreements with a number of bank-sponsored asset-backed commercial paper conduits ("conduits") and other financial institutions. Such counterparties are contractually committed, at our option, to purchase from us eligible retail or wholesale assets or to purchase or make advances under asset-backed securities backed by retail, lease, or wholesale assets for proceeds of up to \$24.3 billion (\$12.9 billion of retail, \$7.0 billion of wholesale, and \$4.4 billion of lease assets) at December 31, 2012, of which about \$4.9 billion are commitments to FCE. These committed liquidity programs have varying maturity dates, with \$23.4 billion (of which \$4.2 billion relates to FCE commitments) having maturities within the next twelve months and the remaining balance having maturities between April 2014 and October 2014. We plan to achieve capacity renewals to protect our global funding needs, optimize capacity utilization and maintain sufficient liquidity.

Our ability to obtain funding under these programs is subject to having a sufficient amount of assets eligible for these programs as well as our ability to obtain interest rate hedging arrangements for certain securitization transactions. Our capacity in excess of eligible receivables protects us against the risk of lower than planned renewal rates. At December 31, 2012, \$12.3 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.

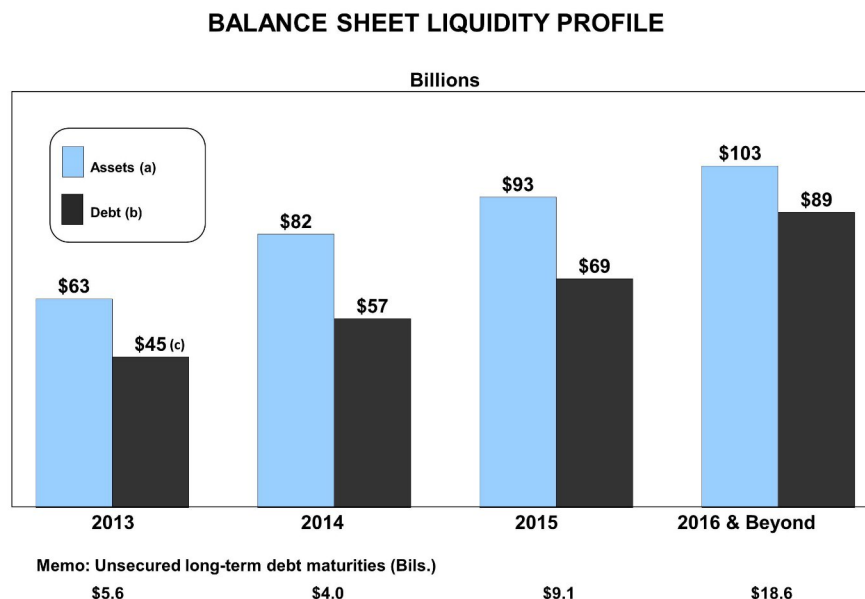
Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations (Continued)

Credit Facilities. At December 31, 2012, we and our majority-owned subsidiaries had \$922 million of contractually committed unsecured credit facilities with financial institutions, including FCE Bank plc's ("FCE") £440 million (equivalent to \$713 million at December 31, 2012) syndicated credit facility (the "FCE Credit Agreement") which matures in 2014. At December 31, 2012, \$866 million was available for use. In January 2013, FCE drew £330 million (equivalent to about \$535 million) of its syndicated facility. The FCE Credit Agreement contains certain covenants, including an obligation for FCE to maintain its ratio of regulatory capital to risk weighted assets at no less than the applicable regulatory minimum, and for the support agreement between FCE and Ford Credit to remain in full force and effect (and enforced by FCE to ensure that its net worth is maintained at no less than \$500 million). In addition to customary payment, representation, bankruptcy, and judgment defaults, the FCE Credit Agreement contains cross-payment and cross-acceleration defaults with respect to other debt. At December 31, 2012, FCE had about £96 million (equivalent to about \$155 million) of commitments from financial institutions in Italy and Spain. There were no commitments from financial institutions in Greece, Ireland, or Portugal.

In addition, at December 31, 2012, we had about \$6.3 billion of contractually committed liquidity facilities provided by banks to support our FCAR program, of which \$3.3 billion expire in 2013 and \$3.0 billion expire in 2014. Utilization of these facilities is subject to conditions specific to the FCAR program and our having a sufficient amount of eligible retail assets for securitization. The FCAR program must be supported by liquidity facilities equal to at least 100% of its outstanding balance. At December 31, 2012, about \$6.3 billion of FCAR's bank liquidity facilities were available to support FCAR's asset-backed commercial paper, subordinated debt, or FCAR's purchase of our asset-backed securities. At December 31, 2012, the outstanding commercial paper balance for the FCAR program was \$5.8 billion.

Balance Sheet Liquidity Profile

We define our balance sheet liquidity profile as the cumulative maturities, including the impact of prepayments, of our finance receivables, investment in operating leases, and cash less the cumulative debt maturities over upcoming annual periods. The following chart shows our cumulative maturities for the periods presented at December 31, 2012:



- (a) Includes finance receivables net of unearned income, investment in operating leases net of accumulated depreciation, cash and cash equivalents, and marketable securities (excludes marketable securities related to insurance activities).
- (b) Retail and lease ABS are treated as amortizing immediately to match the underlying assets.
- (c) Includes all of the wholesale ABS term and conduit maturities of \$8 billion that otherwise contractually extend to 2014 and beyond.

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations (Continued)

Our balance sheet is inherently liquid because of the short-term nature of our finance receivables, investment in operating leases, and cash. Maturities of investment in operating leases consist primarily 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 3 and 10 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 2013 finance receivables maturities in the chart above also include all of the wholesale receivables maturities that are otherwise shown in Note 3 as extending beyond 2013. The chart above also reflects the following adjustments to debt maturities in Note 10 to match all of the asset-backed debt maturities with the underlying asset maturities:

- The 2013 maturities include all of the wholesale securitization transactions, even if the maturities extend beyond 2013; and
- Retail securitization transactions under certain committed liquidity programs are assumed to amortize immediately rather than amortizing after the expiration of the commitment period.

Liquidity Risks

Despite our diverse sources of liquidity, our ability to maintain this liquidity may be affected by 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 renew committed liquidity programs; and
- Credit ratings assigned to us.

Securitization Transactions

Overview

We securitize finance receivables and net investment in operating leases through a variety of programs using amortizing, variable funding, and revolving structures. We also sell finance receivables 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 many different institutional investors in both public and private transactions in capital markets primarily in North America and Europe. We completed our first securitization transaction in 1988, and regularly securitize assets, purchased or originated, in the United States, Canada, Mexico, and several European countries.

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. Securitization transactions have an effect on our financial condition, operating results, and liquidity.

We securitize our assets because the securitization market provides us with a lower cost source of funding compared with unsecured debt and it diversifies our funding among different markets and investors. In the United States, we are, in most cases, able to obtain funding within two days for our unutilized capacity in most of our committed liquidity programs. New programs and new transaction structures typically require substantial development time before coming to market.

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 other creditors and ensure that the cash flows on the securitized assets are available for the benefit of securitization investors. As a result, payments to securitization investors are based on the creditworthiness of the securitized assets and any enhancements, and not on our creditworthiness. Senior asset-backed securities issued by the SPEs generally receive the highest short-term credit ratings and among the highest long-term 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 generally are dissolved when those securities have been paid in full. Other SPEs, such as the trusts that issue securities backed by wholesale receivables, issue multiple series of securities from time to time and are not 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). Generally, we select the assets to be included in a particular securitization randomly from our entire portfolio of assets that satisfy the applicable eligibility criteria.

We provide various forms of credit enhancements to reduce the risk of loss for securitization investors. Credit enhancements include over-collateralization (when the principal amount of the securitized assets exceeds the principal amount of related asset-backed securities), segregated cash reserve funds, subordinated securities, and excess spread (when interest collections on the securitized assets exceed the related fees and expenses, including interest payments on the related asset-backed securities). We may also provide payment enhancements that increase the likelihood of the timely payment of interest and the payment of principal at maturity. Payment enhancements include yield supplement arrangements, interest rate swaps and other hedging arrangements, liquidity facilities, and certain cash deposits.

We retain interests in our securitization transactions, including 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 because our retained interests include the most subordinated interests in the securitized assets and 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 Continuing Obligations

We are engaged as servicer to collect and service the securitized assets. Our servicing duties include collecting payments on the securitized assets and preparing monthly investor reports on the performance of the securitized assets and on amounts of interest and/or principal payments to be made to 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.

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations (Continued)

We generally have no obligation to repurchase or replace any securitized asset that subsequently becomes delinquent in payment or otherwise is in default. However, as the seller and servicer of the securitized assets, we are obligated to provide certain kinds of support to our securitization transactions, which are customary in the securitization industry. These obligations include 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 revolving transactions, 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 investments. 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.

Risks to Continued Funding under Securitization Programs

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

- *Retail Securitization.* If the credit enhancement on any asset-backed security held by FCAR is reduced to zero, FCAR may not purchase any additional asset-backed securities or issue additional commercial paper and would wind down its operations. In addition, if credit losses or delinquencies in our portfolio of retail assets exceed specified levels, FCAR is not permitted to purchase additional asset-backed securities for so long as such levels are exceeded.
- *Retail Conduits.* If credit losses or delinquencies on the pool of assets held by a conduit exceed specified levels, or if the level of over-collateralization or credit enhancements for such pool decreases below a specified level, we will not have the right to sell additional pools of assets to that conduit.
- *Wholesale Securitization.* 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 Warehouse.* 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 lease warehouse facility (i.e., a credit facility under which draws are backed by the retail lease contracts).

Some of these programs also require us to obtain and maintain interest rate hedges in order to use these sources of funding. In the past, these features have not limited our ability to use securitization to fund our operations.

In addition to the structural features discussed previously, our securitization programs may be affected by the following factors:

- *Market* - Market disruption and volatility could impact investors' acceptance of asset-backed securities and our ability to access debt, securitization, or derivative markets around the world at competitive rates or in sufficient amounts.
- *Market capacity for us and our sponsored investments* - Investors may reach exposure limits and/or wish to diversify away from our risk.
- *General demand for the type of assets supporting the asset-backed securities* - Investor desire for securities with different risk and/or yield characteristics could result in reduced demand for these types of investments.
- *Availability of committed liquidity facilities* - Our ability to maintain committed liquidity facilities for any programs that require them.
- *Amount and credit quality of assets available* - Lower overall asset levels or a higher proportion of non-performing assets could decrease the amount of assets available to securitize.
- *Performance of assets in our previous securitization transactions* - If assets in our existing securitization transactions deteriorate significantly, we may not be able to access the market, particularly in public transactions where asset performance is publicly available and/or the costs to securitize may increase.
- *Accounting and regulatory changes* - Such changes may result in increased cost, or temporary disruption or termination of one or more of our present programs which may or may not be able to be restructured or replaced.
- *Credit ratings* - Credit ratings assigned to us may impact investors' acceptance of our asset-backed securities.

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations (Continued)

- *Bank Counterparty credit ratings* - A downgrade in derivative counterparty credit ratings may temporarily reduce our ability to use, or increase the cost of, our committed liquidity facilities that require specified ratings.
- *Bankruptcy of Ford, Ford Credit, or FCE* - A bankruptcy of Ford, Ford Credit, or FCE would cause certain of our funding transactions to amortize and result in a termination of certain liquidity commitments.

If, as a result of any of these or other factors, the cost of securitization funding were to increase significantly or funding through securitization transactions were no longer available to us, it would have a material adverse impact on our financial condition and results of operations, which could adversely affect our ability to support the sale of Ford's vehicles.

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 and other obligations issued or arising in the securitization transactions. They are not available to pay our other obligations or the claims of our other creditors. We hold the right to the excess cash flows not needed to pay the debt and other obligations issued or arising in the securitization transactions. This debt is the obligation of our consolidated securitization entities and not the obligation of Ford Credit or our other subsidiaries. For additional information on our on-balance sheet arrangements, see Note 6 of our Notes to the Financial Statements.

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

	2012			2011		
	Cash and Cash Equivalents	Finance Receivables and Net Investment in Operating Leases (a)	Related Debt	Cash and Cash Equivalents	Finance Receivables and Net Investment in Operating Leases (a)	Related Debt
Finance Receivables						
North America Segment						
Retail Installment (b)	\$ 1.6	\$ 23.0	\$ 20.1	\$ 2.1	\$ 29.4	\$ 24.4
Wholesale	0.2	17.1	11.5	0.1	14.2	9.4
Total North America Segment	1.8	40.1	31.6	2.2	43.6	33.8
International Segment						
Retail Installment (b)	0.7	6.3	5.3	0.7	6.6	5.4
Wholesale	0.1	4.5	2.3	0.4	5.6	3.3
Total International Segment	0.8	10.8	7.6	1.1	12.2	8.7
Total finance receivables	2.6	50.9	39.2	3.3	55.8	42.5
Net investment in operating leases	0.4	6.3	4.2	0.4	6.4	4.2
Total on-balance sheet arrangements	\$ 3.0	\$ 57.2	\$ 43.4	\$ 3.7	\$ 62.2	\$ 46.7

(a) Before allowances for credit losses. Unearned interest supplements are excluded from securitization transactions.

(b) Includes direct financing leases.

Leverage

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

The following table shows the calculation of our financial statement leverage at December 31 (in billions, except for ratios):

	2012	2011	2010
Total debt	\$ 89.3	\$ 84.7	\$ 82.9
Equity	9.7	8.9	10.3
Financial statement leverage (to 1)	9.2	9.5	8.0

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations (Continued)

The following table shows the calculation of our managed leverage at December 31 (in billions, except for ratios):

	2012	2011	2010
Total debt	\$ 89.3	\$ 84.7	\$ 82.9
Adjustments for cash, cash equivalents, and marketable securities (a)	(10.9)	(12.1)	(14.6)
Adjustments for derivative accounting (b)	(0.8)	(0.7)	(0.3)
Total adjusted debt	<u>\$ 77.6</u>	<u>\$ 71.9</u>	<u>\$ 68.0</u>
Equity	\$ 9.7	\$ 8.9	\$ 10.3
Adjustments for derivative accounting (b)	(0.3)	(0.2)	(0.1)
Total adjusted equity	<u>\$ 9.4</u>	<u>\$ 8.7</u>	<u>\$ 10.2</u>
Managed leverage (to 1) (c)	8.3	8.3	6.7

(a) Excludes marketable securities related to insurance activities.

(b) Primarily related to market valuation adjustments to derivatives due to movements in interest rates. Adjustments to debt are related to designated fair value hedges and adjustments to equity are related to retained earnings.

(c) Equals total adjusted debt over total adjusted equity.

We believe that managed leverage is useful to our investors because it reflects the way we manage our business. We deduct cash and cash equivalents, and marketable securities (excluding marketable securities 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 of Part II of our 10-K Report.

We plan our managed leverage by considering prevailing market conditions and the risk characteristics of our business. At December 31, 2012, our managed leverage was 8.3:1, unchanged from December 31, 2011. In 2013, we expect managed leverage to be in the range of 8:1 to 9:1. In 2012, we paid \$600 million in distributions to our parent, Ford Holdings LLC. For information on our planned distributions, refer to the "Outlook" section. For information regarding income taxes paid to Ford or our deferred tax assets and liabilities, see Notes 9, 11 and 19 of our Notes to the Financial Statements.

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, 2012 are shown below (in millions):

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations (Continued)

	Payments Due by Period				
	2013	2014-2015	2016-2017	2018 and Thereafter	Total
Long-term debt (a)	\$ 19,345	\$ 30,387	\$ 13,868	\$ 7,617	\$ 71,217
Interest payments relating to long-term debt (b)	2,530	3,397	1,574	1,274	8,775
Operating lease	14	18	11	8	51
Purchase obligations	—	—	—	—	—
Total	\$ 21,889	\$ 33,802	\$ 15,453	\$ 8,899	\$ 80,043

(a) Excludes fair value adjustments of \$791 million and unamortized debt discounts of \$128 million; includes capital lease obligations of \$2 million.

(b) Excludes amortization of debt discounts / premiums.

Liabilities recognized for unrecognized tax benefits of \$491 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 expect the unrecognized benefits balance to decrease by approximately \$300 million over the next twelve months as a result of settling the U.S. federal income tax deficiencies related to tax years 2008 and 2009 in accordance with our intercompany tax sharing agreement with Ford. For additional information on income taxes, see Note 11 of our Notes to the Financial Statements.

For additional information on our long-term debt and operating lease obligations, see Notes 10 and 22, respectively, of our Notes to the Financial Statements.

Critical Accounting Estimates

We consider an accounting estimate to be critical if:

- The accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made; and
- 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 is our estimate of the probable credit losses inherent in finance receivables and operating leases at the date of the balance sheet. Consistent with our normal practices and policies, we assess the adequacy of our allowance for credit losses quarterly and regularly evaluate the assumptions and models used in establishing the allowance. 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 5 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.

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations (Continued)

Consumer Segment. The retail installment and lease portfolio is evaluated using a combination of models and management judgment, and is based on factors such as historical trends in credit losses and recoveries (including key metrics such as delinquencies, repossessions, and bankruptcies), the composition of our present portfolio (including vehicle brand, term, risk evaluation, and new/used vehicles), and trends in historical and projected used vehicle values, and economic conditions. Estimates from models may not fully reflect losses inherent in the present portfolio, and an element of the allowance for credit losses is established for the imprecision inherent in loan loss models. Reasons for imprecision include changes in economic trends and conditions, portfolio composition, and other relevant factors.

Assumptions Used. We make projections of two key assumptions:

- **Frequency.** The number of finance receivables and operating lease contracts that we expect will default over a period of time, measured as repossessions; and
- **Loss severity.** The expected difference between the amount of money a customer owes us when we charge off the finance contract and the amount we receive, net of expenses, from selling the repossessed vehicle, including any recoveries from the customer.

We use these assumptions to assist us in estimating our allowance for credit losses.

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 and lease portfolio is as follows:

Assumption	Percentage Point Change	Increase / (Decrease)	
		December 31, 2012 Allowance for Credit Losses	2013 Expense
Repossession ratios (a)	+/- 0.1 pt.	\$20 / \$(20)	\$20 / \$(20)
Loss severity	+/- 1.0	\$5 / \$(5)	\$5 / \$(5)

(a) Reflects the number of finance receivables and operating lease contracts that we expect will default over a period of time relative to the average number of contracts outstanding.

Non-Consumer Segment. We estimate an allowance using a loss-to-receivables model for non-consumer receivables that are not specifically identified as impaired. All accounts that are specifically identified as impaired are excluded from the calculation of the non-specific or collective allowance. The non-consumer portfolio is evaluated by segmenting individual loans by the risk characteristics of the loan (such as the amount of the loan, the nature of collateral, and the financial status of the dealer). The loans are analyzed to determine if individual loans are impaired, and a specific allowance is estimated for the expected loss of the impaired loans.

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 4 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.

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations (Continued)

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 of Item 7 of Part II of our 10-K Report.

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, industry-wide 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 of:

- **Auction value.** The market value of the vehicles when we sell them at the end of the lease; and
- **Return volumes.** 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 effect of the indicated increase/decrease in the assumptions for our U.S. Ford- and Lincoln-brand retail and lease portfolio is as follows:

Assumption	Percentage Change	Increase / (Decrease)	
		December 31, 2012 Accumulated Depreciation on Vehicles Subject to Operating Leases	2013 Expense
Future auction values	+/- 1.0	\$47 / \$(47)	\$12 / \$(12)
Return volumes	+/- 1.0	\$3 / \$(3)	\$1 / \$(1)

The impact of the increased accumulated supplemental depreciation in 2012 would be charged to expense in the 2013-2016 periods. Adjustments to the amount of accumulated depreciation on operating leases will 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

For information on accounting standards issued but not yet adopted, see Note 1 of our Notes to the Financial Statements.

Outlook

For full-year 2013, we project:

- Pre-tax profit about equal to 2012,
- Managed receivables at year-end in the range of \$95 billion to \$105 billion,
- Managed leverage to continue in the range of 8:1 to 9:1, and
- Distributions of about \$200 million.

Cautionary Statement Regarding 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:

- Decline in industry sales volume, particularly in the United States or Europe, due to financial crisis, recession, geopolitical events, or other factors;
- Decline in Ford's market share or failure to achieve growth;
- Lower-than-anticipated market acceptance of Ford's new or existing products;

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations (Continued)

- Market shift away from sales of larger, more profitable vehicles beyond Ford's current planning assumption, particularly in the United States;
- An increase in or continued volatility of fuel prices, or reduced availability of fuel;
- Continued or increased price competition resulting from industry excess capacity, currency fluctuations, or other factors;
- Fluctuations in foreign currency exchange rates, commodity prices, and interest rates;
- Adverse effects resulting from economic, geopolitical, or other events;
- Economic distress of suppliers that may require Ford to provide substantial financial support or take other measures to ensure supplies of components or materials and could increase costs, affect liquidity, or cause production constraints or disruptions;
- Work stoppages at Ford or supplier facilities or other limitations on production (whether as a result of labor disputes, natural or man-made disasters, tight credit markets or other financial distress, production constraints or difficulties, or other factors);
- Single-source supply of components or materials;
- Labor or other constraints on Ford's ability to maintain competitive cost structure;
- Substantial pension and postretirement health care and life insurance liabilities impairing our liquidity or financial condition;
- Worse-than-assumed economic and demographic experience for postretirement benefit plans (e.g., discount rates or investment returns);
- Restriction on use of tax attributes from tax law "ownership change;"
- The discovery of defects in vehicles resulting in delays in new model launches, recall campaigns, or increased warranty costs;
- Increased safety, emissions, fuel economy, or other regulations resulting in higher costs, cash expenditures, and/or sales restrictions;
- Unusual or significant litigation, governmental investigations, or adverse publicity arising out of alleged defects in products, perceived environmental impacts, or otherwise;
- A change in requirements under long-term supply arrangements committing Ford to purchase minimum or fixed quantities of certain parts, or to pay a minimum amount to the seller ("take-or-pay" contracts);
- Adverse effects on results from a decrease in or cessation or clawback of government incentives related to investments;
- Inherent limitations of internal controls impacting financial statements and safeguarding of assets;
- Cybersecurity risks to operational systems, security systems, or infrastructure owned by Ford, Ford Credit, or a third-party vendor or supplier;
- Failure of financial institutions to fulfill commitments under committed credit and liquidity facilities;
- Inability of Ford Credit to access debt, securitization, or derivative markets around the world at competitive rates or in sufficient amounts, due to credit rating downgrades, market volatility, market disruption, regulatory requirements, or other factors;
- Higher-than-expected credit losses, lower-than-anticipated residual values, or higher-than-expected return volumes for leased vehicles;
- Increased competition from banks or other financial institutions seeking to increase their share of financing Ford vehicles; and
- New or increased credit, consumer, or data protection or other regulations resulting in higher costs and/or additional financing restrictions.

We cannot be certain that any expectations, forecasts, or assumptions made by management in preparing these forward-looking statements will prove accurate, or that any projections 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 statements, whether as a result of new information, future events, or otherwise.

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 cash deposit;
- *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 the possibility of fraud by our employees or outside persons.

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 derivative 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. 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 lease contracts and floating-rate wholesale receivables. Fixed-rate retail installment sale and lease contracts are originated principally with maturities ranging between two and six years and 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.

Item 7A. Quantitative And Qualitative Disclosures About Market Risk (Continued)

Debt consists primarily of securitization transactions and short- and long-term unsecured debt. In the case of unsecured term debt, and in an effort to have funds available throughout business cycles, 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 economic value from changes in interest rates based on an established risk tolerance. We use re-pricing gap analysis and economic value sensitivity 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.

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

	Pre-Tax Cash Flow Sensitivity given a one percentage point instantaneous increase in interest rates	Pre-Tax Cash Flow Sensitivity given a one percentage point instantaneous decrease in interest rates (a)
December 31, 2012	\$77	\$(77)
December 31, 2011	60	(60)

(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.

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 above.

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.

Item 7A. Quantitative And Qualitative Disclosures About Market Risk (Continued)

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, and Pound Sterling. 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, 2012, is insignificant. For additional information on our derivatives, see Note 8 of our Notes to the Financial Statements.

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

	2012	2011
Interest rate derivatives		
Pay-fixed, receive-floating, excluding securitization swaps	\$ 11	\$ 7
Pay-floating, receive-fixed, excluding securitization swaps	27	19
Securitization swaps	47	51
Caps and floors	—	1
Total interest rate derivatives	85	78
Other derivatives		
Cross-currency swaps	3	1
Foreign currency forwards	2	3
Other (a)	—	3
Total notional value	\$ 90	\$ 85

(a) Represents derivative features included in the FUEL notes. The derivative features included in the FUEL notes were extinguished as a result of the mandatory exchange of the FUEL notes to unsecured notes in the second quarter of 2012 (see Note 18).

Derivative Fair Values. Net fair value of Ford Credit's derivative financial instruments at December 31, 2012 was an asset of \$856 million, compared to an asset of \$1.1 billion at December 31, 2011. For additional information regarding our derivatives, see Note 8 of the 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 and estimated loss projections which are calculated from ratings-based historical default probabilities. The exposure limits are lower for lower-rated counterparties 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 derivative exposures are with counterparties that have an investment grade rating. Investment grade is our guideline for counterparty minimum long-term ratings. For additional information on our derivatives, see Note 8 of our Notes to the Financial Statements.

Item 7A. Quantitative And Qualitative Disclosures About Market Risk (Continued)

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

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 set forth on pages FC-1 through FC-51 immediately following the signature pages of this Report.

Selected quarterly financial data (unaudited) for us and our consolidated subsidiaries for 2012 and 2011 are disclosed in Note 21 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

Bernard B. Silverstone, our Chairman of the Board and Chief Executive Officer ("CEO"), and Michael L. Seneski, 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, 2012, 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 the SEC's rules and forms, and such information is accumulated and communicated to management as appropriate 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 in the United States.

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, 2012. The assessment was based on criteria established in the framework *Internal Control - Integrated Framework*, 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, 2012.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2012, has been audited by PricewaterhouseCoopers LLP ("PwC"), an independent registered public accounting firm, as stated in its report which appears herein.

Item 9A. Controls and Procedures (Continued)*Changes in Internal Control Over Financial Reporting*

Michael E. Bannister, Chairman of the Board and CEO, retired effective January 1, 2013. He was succeeded by Bernard B. Silverstone, formerly Director and Chief Operating Officer.

ITEM 9B. OTHER INFORMATION

We have none to report.

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 ending December 31 were as follows (in millions):

	2012	2011
Nature of Services		
<i>Audit fees</i> - 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, statutory financial statement filings, and providing comfort letters in connection with our funding transactions	\$ 10.7	\$ 10.6
<i>Audit-related fees</i> - for support of funding transactions, attestation services, assistance with interpretation of accounting standards, and services related to divestitures	1.5	1.9
<i>Tax fees</i> - 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 divestitures	0.8	0.8
<i>All other fees</i> - for research analysis regarding new markets	—	0.2
Total fees	\$ 13.0	\$ 13.5

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, 2012, 2011, and 2010

Consolidated Statement of Comprehensive Income for the Years Ended December 31, 2012, 2011, and 2010

Consolidated Balance Sheet at December 31, 2012 and 2011

Consolidated Statement of Shareholder's Interest for the Years Ended December 31, 2012, 2011, and 2010

Consolidated Statement of Cash Flows for the Years Ended December 31, 2012, 2011, and 2010

Notes to the Financial Statements

The Consolidated Financial Statements, the Notes to the Financial Statements and the Report of Independent Registered Public Accounting Firm listed above are filed as part of this Report and are set forth on pages FC-1 through FC-51 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 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 10-A	Copy of Amended and Restated Support Agreement dated as of November 6, 2008 between Ford Motor Company and Ford Motor Credit Company LLC.	Filed as Exhibit 10 to Ford Motor Credit Company LLC Report on Form 10-Q for the quarter ended September 30, 2008 and incorporated herein by reference. File No. 1-6368.
Exhibit 10-B	Copy of Amended and Restated Agreement dated as of December 12, 2006 between Ford Motor Credit Company and Ford Motor Company.	Filed as Exhibit 10.1 to Ford Motor Credit Company Current Report on Form 8-K dated December 12, 2006 and incorporated herein by reference. File No. 1-6368.
Exhibit 10-C	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 Report on Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference. File No. 1-6368.
Exhibit 10-D	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.
Exhibit 12	Ford Motor Credit Company LLC and Subsidiaries Calculation of Ratio of Earnings to Fixed Charges.	Filed with this Report

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 99	Parts I, II (other than Items 6 and 8) and III of Ford Motor Company's Annual Report on Form 10-K for the year ended December 31, 2012.	Incorporated herein by reference to Ford Motor Company's Annual Report on Form 10-K for the year ended December 31, 2012. File No. 1-3950.
Exhibit 101.INS	XBRL Instance Document	Furnished with this Report *
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document	Furnished with this Report *
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Furnished with this Report *
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Furnished with this Report *
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Furnished with this Report *
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Furnished with this Report *

* Submitted electronically with this Report.

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.

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/ Michael L. Seneski
Michael L. Seneski
Chief Financial Officer and Treasurer

Date: February 18, 2013

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 on the date indicated.

Signature	Title	Date
<u>BERNARD B. SILVERSTONE*</u> (Bernard B. Silverstone)	Director, Chairman of the Board and Chief Executive Officer (principal executive officer)	February 18, 2013
<u>N. JOY FALOTICO*</u> (N. Joy Falotico)	Director and Executive Vice President, Marketing, Sales & Americas	February 18, 2013
<u>TODD S. MURPHY*</u> (Todd S. Murphy)	Director and Executive Vice President, Operations and International	February 18, 2013
<u>STUART J. ROWLEY*</u> (Stuart J. Rowley)	Director and Audit Committee Member	February 18, 2013
<u>NEIL M. SCHLOSS*</u> (Neil M. Schloss)	Director and Audit Committee Member	February 18, 2013
<u>THOMAS C. SCHNEIDER*</u> (Thomas C. Schneider)	Director and Executive Vice President, Chief Risk Officer	February 18, 2013
<u>MICHAEL L. SENESKI*</u> (Michael L. Seneski)	Director, Chief Financial Officer and Treasurer (principal financial officer and principal accounting officer)	February 18, 2013
<u>ROBERT L. SHANKS*</u> (Robert L. Shanks)	Director and Audit Committee Member	February 18, 2013
<u>* By /s/ COREY M. MACGILLIVRAY</u> (Corey M. MacGillivray)	Attorney-in-Fact	February 18, 2013

Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income, of shareholder's interest and of cash flows present fairly, in all material respects, the financial position of Ford Motor Credit Company LLC and its subsidiaries (the "Company") at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 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, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these 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 these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. 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.

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

PricewaterhouseCoopers LLP
Detroit, Michigan
February 18, 2013

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

	For the Years Ended December 31,		
	2012	2011	2010
Financing revenue			
Operating leases	\$ 2,616	\$ 2,454	\$ 3,312
Retail	1,889	2,059	2,335
Interest supplements and other support costs earned from affiliated companies	2,401	2,800	3,226
Wholesale	920	952	894
Other	56	56	59
Total financing revenue	7,882	8,321	9,826
Depreciation on vehicles subject to operating leases	(2,468)	(1,774)	(1,945)
Interest expense	(3,027)	(3,507)	(4,222)
Net financing margin	2,387	3,040	3,659
Other revenue			
Insurance premiums earned (Note 13)	105	100	98
Other income, net (Note 14)	286	302	223
Total financing margin and other revenue	2,778	3,442	3,980
Expenses			
Operating expenses	1,004	1,076	1,149
Provision for credit losses (Note 5)	7	(118)	(269)
Insurance expenses (Note 13)	70	80	46
Total expenses	1,081	1,038	926
Income before income taxes	1,697	2,404	3,054
Provision for income taxes (Note 11)	483	609	1,106
Net income	<u>\$ 1,214</u>	<u>\$ 1,795</u>	<u>\$ 1,948</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in millions)

	For the Years Ended December 31,		
	2012	2011	2010
Net income	\$ 1,214	\$ 1,795	\$ 1,948
Other comprehensive income/(loss), net of tax (Note 12)			
Foreign currency translation	143	(221)	(106)
Total other comprehensive income/(loss), net of tax	143	(221)	(106)
Comprehensive income	<u>\$ 1,357</u>	<u>\$ 1,574</u>	<u>\$ 1,842</u>

The accompanying notes are part of the financial statements.

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

	December 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	\$ 9,189	\$ 8,713
Marketable securities (Note 2)	2,106	3,835
Finance receivables, net (Note 3)	75,063	71,907
Net investment in operating leases (Note 4)	14,701	11,098
Notes and accounts receivable from affiliated companies (Note 19)	1,173	1,152
Derivative financial instruments (Note 8)	1,256	1,365
Other assets (Note 9)	2,256	2,172
Total assets	\$ 105,744	\$ 100,242
LIABILITIES		
Accounts payable		
Customer deposits, dealer reserves, and other	\$ 1,072	\$ 901
Affiliated companies (Note 19)	234	773
Total accounts payable	1,306	1,674
Debt (Note 10)	89,258	84,659
Deferred income taxes	1,669	1,134
Derivative financial instruments (Note 8)	400	286
Other liabilities and deferred income (Note 9)	3,458	3,593
Total liabilities	96,091	91,346
SHAREHOLDER'S INTEREST		
Shareholder's interest	5,274	5,274
Accumulated other comprehensive income (Note 12)	743	600
Retained earnings	3,636	3,022
Total shareholder's interest	9,653	8,896
Total liabilities and shareholder's interest	\$ 105,744	\$ 100,242

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 6 and 7 for additional information on our VIEs.

	December 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	\$ 2,877	\$ 3,356
Finance receivables, net	47,190	49,329
Net investment in operating leases	6,308	6,354
Derivative financial instruments	4	157
LIABILITIES		
Debt	\$ 40,245	\$ 41,421
Derivative financial instruments	134	97

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	Accumulated Other Comprehensive Income (Note 12)	Retained Earnings	Total
Year Ended December 31, 2009	\$ 5,149	\$ 1,052	\$ 4,779	\$ 10,980
Net income	—	—	1,948	1,948
Other comprehensive income/(loss), net of tax	125	(231)	—	(106)
Distributions	—	—	(2,500)	(2,500)
Year Ended December 31, 2010	\$ 5,274	\$ 821	\$ 4,227	\$ 10,322
Net income	—	—	1,795	1,795
Other comprehensive income/(loss), net of tax	—	(221)	—	(221)
Distributions	—	—	(3,000)	(3,000)
Year Ended December 31, 2011	\$ 5,274	\$ 600	\$ 3,022	\$ 8,896
Net income	—	—	1,214	1,214
Other comprehensive income/(loss), net of tax	—	143	—	143
Distributions	—	—	(600)	(600)
Year Ended December 31, 2012	<u>\$ 5,274</u>	<u>\$ 743</u>	<u>\$ 3,636</u>	<u>\$ 9,653</u>

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,		
	2012	2011	2010
Cash flows from operating activities			
Net income	\$ 1,214	\$ 1,795	\$ 1,948
Adjustments to reconcile net income to net cash provided by operations			
Provision for credit losses	7	(118)	(269)
Depreciation and amortization	3,358	2,631	2,378
Amortization of upfront interest supplements	(1,811)	(1,937)	(1,790)
Net change in deferred income taxes	497	(236)	(317)
Net change in other assets	548	865	1,642
Net change in other liabilities	539	205	329
All other operating activities	(397)	(472)	(241)
Net cash provided by/(used in) operating activities	3,955	2,733	3,680
Cash flows from investing activities			
Purchases of finance receivables (other than wholesale)	(29,463)	(26,603)	(22,782)
Collections of finance receivables (other than wholesale)	28,105	27,873	28,988
Purchases of operating lease vehicles	(9,453)	(8,131)	(5,180)
Liquidations of operating lease vehicles	3,309	5,124	8,012
Net change in wholesale receivables	(1,369)	(2,367)	199
Net change in notes receivable from affiliated companies	132	(140)	(42)
Purchases of marketable securities	(22,035)	(24,370)	(46,728)
Proceeds from sales and maturities of marketable securities	23,748	27,270	46,866
Settlements of derivatives	52	218	159
All other investing activities	(42)	147	49
Net cash provided by/(used in) investing activities	(7,016)	(979)	9,541
Cash flows from financing activities			
Proceeds from issuances of long-term debt	30,883	33,557	27,896
Principal payments on long-term debt	(28,204)	(34,683)	(38,729)
Change in short-term debt, net	1,259	2,783	(2,069)
Cash distributions to parent	(600)	(3,000)	(2,500)
All other financing activities	128	(38)	(192)
Net cash provided by/(used in) financing activities	3,466	(1,381)	(15,594)
Effect of exchange rate changes on cash and cash equivalents	71	(7)	(162)
Net increase/(decrease) in cash and cash equivalents	<u>\$ 476</u>	<u>\$ 366</u>	<u>\$ (2,535)</u>
Cash and cash equivalents at January 1	<u>\$ 8,713</u>	<u>\$ 8,347</u>	<u>\$ 10,882</u>
Net increase/(decrease) in cash and cash equivalents	476	366	(2,535)
Cash and cash equivalents at December 31	<u><u>\$ 9,189</u></u>	<u><u>\$ 8,713</u></u>	<u><u>\$ 8,347</u></u>
Supplementary cash flow information for continuing operations			
Interest paid	\$ 3,243	\$ 3,446	\$ 4,130
Income taxes paid	150	1,446	1,561

The accompanying notes are part of the financial statements.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

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FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING POLICIES

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").

Use of estimates, as determined by management, is required in the preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"). 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 include the allowance for credit losses and accumulated depreciation on vehicles subject to operating leases.

We reclassified certain prior year amounts in our consolidated financial statements to conform to current year presentation.

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 (see Note 3) and net investment in operating leases (see Note 4). 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.

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 20 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 requiring maintenance of certain minimum capital levels that limit the ability of the subsidiaries to pay dividends.

Accounting Policies

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

Non-Controlling Interests in Subsidiaries. Our shareholder's interest, net income, and accumulated other comprehensive income will be reflected as attributable to either Ford Credit or our non-controlling interests in subsidiaries (if our non-controlling interests in subsidiaries are more than de minimis). At December 31, 2012, 2011 and 2010, our non-controlling interests in subsidiaries were de minimis.

Goodwill. We perform annual testing of goodwill during the fourth quarter to determine whether any impairment has occurred. Goodwill impairment testing is also performed following an allocation of goodwill to a business to be disposed, or following a triggering event for the long-lived asset impairment test. Testing is conducted at the reporting unit level, which is the same level as our business segments. To test for goodwill impairment, the carrying value of each reporting unit is compared with its fair value. Fair value is measured relying primarily on the income approach by applying a discounted cash flow methodology. Our goodwill balance was \$8 million and \$11 million at December 31, 2012 and 2011, respectively. For the periods presented, we have not recorded any impairment of goodwill.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING POLICIES (*Continued*)

Foreign Currency Translation. Assets and liabilities are translated at end-of-period exchange rates. Translation adjustments are related to foreign subsidiaries using local currency as their functional currency and are reported as a separate component of *Accumulated other comprehensive income* in *Shareholder's interest*. Upon sale or upon complete or substantially complete liquidation of an investment in a foreign subsidiary, the accumulated amount of translation adjustments related to that entity is reclassified to net income as part of the recognized gain or loss on the investment. Gains and losses arising from transactions denominated in currencies other than the affiliate's functional currency and the results of foreign currency hedging activities are reported in *Other income, net*.

Adoption of New Accounting Standards

Fair Value Measurement. On January 1, 2012, we adopted the new accounting standard that requires us to report the level in the fair value hierarchy of assets and liabilities not measured at fair value in the balance sheet but for which the fair value is disclosed, and to expand existing disclosures. See Note 18 for further disclosure regarding our fair value measurements.

Comprehensive Income - Presentation. On January 1, 2012, we adopted the new accounting standard that modifies the options for presentation of other comprehensive income. The new accounting standard requires us to present comprehensive income either in a single continuous statement or two separate but consecutive statements. We have elected to present comprehensive income in two separate but consecutive statements.

On January 1, 2012, we also adopted the new accounting standards *Intangibles - Goodwill and Other, Transfers and Servicing - Repurchase Agreements*, and *Financial Services - Insurance*. The adoption of these new accounting standards did not impact our financial condition or results of operations.

Accounting Standards Issued But Not Yet Adopted

Balance Sheet - Offsetting. In December 2011, the Financial Accounting Standards Board ("FASB") issued a new accounting standard that requires disclosures about offsetting and related arrangements for recognized financial instruments and derivative instruments. The new accounting standard is effective for us as of January 1, 2013.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. MARKETABLE SECURITIES

We hold various investments classified as *Marketable securities*, including corporate debt, U.S. government and non-U.S. government securities, securities issued by non-U.S. government agencies, and asset-backed securities.

We record marketable securities at fair value with realized and unrealized gains and losses and interest income recorded to *Other income, net*. Realized gains and losses are measured using the specific identification method. See Note 18 for additional information on fair value measurements.

Investments in marketable securities were as follows (in millions):

	December 31, 2012	December 31, 2011
Fair value	\$ 2,106	\$ 3,835
Net unrealized gains/(losses) for period related to instruments still held at year-end	6	(9)

NOTE 3. FINANCE RECEIVABLES

We segment our North America and International portfolio of finance receivables into "consumer" and "non-consumer" receivables. The receivables are secured by the vehicles, inventory, or other property being financed.

Consumer Segment. Receivables in this portfolio segment 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 Segment. Receivables in this portfolio segment include products offered to automotive dealers and receivables purchased from Ford and its affiliates. The products include:

- *Dealer financing* – wholesale loans to dealers to finance the purchase of vehicle inventory, also known as floorplan financing, and loans to dealers to finance working capital and improvements to dealership facilities, finance the purchase of dealership real estate and other dealer vehicle program financing. Wholesale is approximately 95% of our dealer financing.
- *Other financing* – purchased receivables from Ford and its affiliates, primarily related to the sale of parts and accessories to dealers, receivables from Ford related loans, and certain used vehicles from daily rental fleet companies. These receivables are excluded from our credit quality reporting since the performance of this group of receivables is generally guaranteed by Ford and there are no amounts past due.

Finance receivables are recorded at the time of origination or purchase for the principal amount financed and are subsequently reported at amortized cost, net of any allowance for credit losses. Amortized cost is the outstanding principal adjusted for any charge-offs, unamortized deferred fees or costs, and unearned interest supplements.

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 other affiliates. The unamortized balance of unearned interest supplements on consumer finance receivables is included in *Finance receivables, net* on the balance sheet.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. FINANCE RECEIVABLES (Continued)

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.

Finance Receivables, Net

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

	December 31, 2012			December 31, 2011		
	North America	International	Total Finance Receivables	North America	International	Total Finance Receivables
Consumer						
Retail financing, gross (a)	\$ 39,504	\$ 8,964	\$ 48,468	\$ 38,410	\$ 9,112	\$ 47,522
Less: Unearned interest supplements (b)	(1,264)	(222)	(1,486)	(1,407)	(236)	(1,643)
Consumer finance receivables	<u>\$ 38,240</u>	<u>\$ 8,742</u>	<u>\$ 46,982</u>	<u>\$ 37,003</u>	<u>\$ 8,876</u>	<u>\$ 45,879</u>
Non-Consumer						
Dealer financing (a)(c)	\$ 19,494	\$ 7,496	\$ 26,990	\$ 16,583	\$ 8,579	\$ 25,162
Other	1,072	404	1,476	988	372	1,360
Non-Consumer finance receivables	<u>20,566</u>	<u>7,900</u>	<u>28,466</u>	<u>17,571</u>	<u>8,951</u>	<u>26,522</u>
Total recorded investment	<u>\$ 58,806</u>	<u>\$ 16,642</u>	<u>\$ 75,448</u>	<u>\$ 54,574</u>	<u>\$ 17,827</u>	<u>\$ 72,401</u>
Recorded investment in finance receivables (d)	\$ 58,806	\$ 16,642	\$ 75,448	\$ 54,574	\$ 17,827	\$ 72,401
Less: Allowance for credit losses (e)	(309)	(76)	(385)	(388)	(106)	(494)
Finance receivables, net	<u>\$ 58,497</u>	<u>\$ 16,566</u>	<u>\$ 75,063</u>	<u>\$ 54,186</u>	<u>\$ 17,721</u>	<u>\$ 71,907</u>
Net finance receivables subject to fair value (f)			\$ 74,171			\$ 70,926
Fair Value			76,171			72,466

- (a) At December 31, 2012 and 2011, includes North America consumer receivables of \$23.0 billion and \$29.4 billion and non-consumer receivables of \$17.1 billion and \$14.2 billion, respectively, and International consumer receivables of \$6.3 billion and \$6.6 billion and non-consumer receivables of \$4.5 billion and \$5.6 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 and other obligations issued or arising in the 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 and other obligations issued or arising in securitization transactions. See Note 6 for additional information.
- (b) Ford-sponsored special-rate financing attributable to retail financing. See Note 19 for additional information related to interest supplements and other support costs earned from affiliated companies.
- (c) At December 31, 2012 and 2011, includes \$50 million and \$67 million, respectively, of North America wholesale receivables and \$15 million and \$16 million, respectively, of North America dealer loans with entities (primarily dealers) that are reported as consolidated subsidiaries of Ford. At December 31, 2012 and 2011, includes \$346 million and \$305 million, respectively, of International wholesale receivables with entities (primarily dealers) that are reported as consolidated subsidiaries of Ford. The associated vehicles that are being financed by us are reported as inventory on Ford's balance sheet.
- (d) At December 31, 2012 and 2011, excludes \$183 million and \$180 million, respectively, of accrued uncollected interest receivables, which we report in *Other assets* on our balance sheet.
- (e) See Note 5 for additional information related to our allowance for credit losses.
- (f) At December 31, 2012 and 2011, excludes \$892 million and \$1.0 billion, respectively, of certain receivables (primarily direct financing leases) that are not subject to fair value disclosure requirements. All finance receivables are categorized within Level 3 of the fair value hierarchy. See Note 18 for additional information.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. FINANCE RECEIVABLES (Continued)

Contractual maturities of total finance receivables, excluding unearned interest supplements received from Ford, outstanding at December 31, 2012, reflect contractual repayments due from customers or borrowers were as follows (in millions):

	2013	2014	2015	Thereafter	Total
North America					
Consumer					
Retail financing, gross	\$ 11,599	\$ 9,992	\$ 8,096	\$ 9,817	\$ 39,504
Non-Consumer					
Dealer financing	18,017	549	72	856	19,494
Other	1,065	3	2	2	1,072
Total North America	<u>\$ 30,681</u>	<u>\$ 10,544</u>	<u>\$ 8,170</u>	<u>\$ 10,675</u>	<u>\$ 60,070</u>
International					
Consumer					
Retail financing, gross	\$ 3,764	\$ 2,658	\$ 1,512	\$ 1,030	\$ 8,964
Non-Consumer					
Dealer financing	6,680	752	61	3	7,496
Other	404	—	—	—	404
Total International	<u>\$ 10,848</u>	<u>\$ 3,410</u>	<u>\$ 1,573</u>	<u>\$ 1,033</u>	<u>\$ 16,864</u>

Our finance receivables are pre-payable without penalty, so prepayments may cause actual maturities to differ from contractual maturities. The above table, therefore, is not to be regarded as a forecast of future cash collections. For wholesale receivables, which are included in dealer financing, maturities stated above are estimated based on historical trends, as maturities on outstanding amounts are scheduled upon the sale of the underlying vehicle by the dealer.

At December 31, 2012, finance receivables included \$1.1 billion owed by the three customers with the largest receivables balances. These are included in non-consumer.

Investment in direct financing leases, which are included in our consumer receivables, were as follows (in millions):

	December 31, 2012			December 31, 2011		
	North America	International	Total Direct Financing Leases	North America	International	Total Direct Financing Leases
Total minimum lease rentals to be received	\$ 58	\$ 418	\$ 476	\$ 4	\$ 460	\$ 464
Initial direct costs	1	10	11	—	10	10
Estimated residual values	—	509	509	1	613	614
Less: Unearned income	(7)	(83)	(90)	(1)	(95)	(96)
Less: Unearned interest supplements	—	(19)	(19)	—	(19)	(19)
Recorded investment in direct financing leases	52	835	887	4	969	973
Less: Allowance for credit losses	(1)	(4)	(5)	—	(7)	(7)
Net investment in direct financing leases	<u>\$ 51</u>	<u>\$ 831</u>	<u>\$ 882</u>	<u>\$ 4</u>	<u>\$ 962</u>	<u>\$ 966</u>

Future minimum rental payments due from direct financing leases at December 31, 2012 were as follows (in millions):

	2013	2014	2015	2016	Thereafter
North America	\$ 21	\$ 12	\$ 13	\$ 9	\$ 3
International	188	107	75	40	8

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. FINANCE RECEIVABLES (Continued)

Aging

For all classes of finance receivables, we define "past due" as any payment, including principal and interest, that has not been collected and is at least 31 days past the contractual due date. Recorded investment of consumer accounts greater than 90 days past due and still accruing interest was \$13 million and \$14 million at December 31, 2012 and 2011, respectively. The recorded investment of non-consumer accounts that are 90 days past due and still accruing interest was \$5 million and de minimis at December 31, 2012 and 2011, respectively.

The aging analysis of our finance receivables balances was as follows (in millions):

	December 31, 2012			December 31, 2011		
	North America	International	Total	North America	International	Total
Consumer						
31-60 Days past due	\$ 783	\$ 46	\$ 829	\$ 732	\$ 61	\$ 793
61-90 Days past due	97	17	114	68	26	94
91-120 Days past due	21	9	30	22	11	33
Greater than 120 days past due	52	29	81	70	43	113
Total past due	953	101	1,054	892	141	1,033
Current	37,287	8,641	45,928	36,111	8,735	44,846
Consumer finance receivables	\$ 38,240	\$ 8,742	\$ 46,982	\$ 37,003	\$ 8,876	\$ 45,879
Non-Consumer						
Total past due	\$ 29	\$ 11	\$ 40	\$ 30	\$ 9	\$ 39
Current	20,537	7,889	28,426	17,541	8,942	26,483
Non-Consumer finance receivables	20,566	7,900	28,466	17,571	8,951	26,522
Total recorded investment	\$ 58,806	\$ 16,642	\$ 75,448	\$ 54,574	\$ 17,827	\$ 72,401

Credit Quality

Consumer. When originating all classes of consumer receivables, we use a proprietary scoring system that measures the credit quality of the receivables using several factors, such as credit bureau information, consumer credit risk scores (e.g., FICO score), and contract characteristics. In addition to our proprietary scoring system, we consider other individual consumer factors, such as employment history, financial stability, and capacity to pay.

Subsequent to origination, we review the credit quality of our retail and direct financing lease receivables 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. 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. These models allow for more focused collection activity on higher-risk accounts and are used to refine our risk-based staffing model to ensure collection resources are aligned with portfolio risk.

Credit quality ratings for our consumer receivables are based on our aging analysis. Refer to aging table above. 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
- *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

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. FINANCE RECEIVABLES (Continued)

Non-Consumer. 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. Each non-consumer lending request is evaluated by taking into consideration 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 performance data to identify key factors about a dealer that we consider 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 Ford Credit and other creditors. A dealer's risk rating does not reflect any guarantees or a dealer owner's net worth.

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
- *Group IV* – poor financial metrics, including dealers classified as uncollectible

We 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 factors and update the model to incorporate new factors or other information that improves its statistical predictability. In addition, we verify the existence of the assets collateralizing the receivables by physical audits of vehicle inventories, which are performed with increased frequency for higher-risk (i.e., Group III and Group IV) dealers. We perform a credit review of each dealer at least annually and adjust the dealer's risk rating, if necessary.

Performance of non-consumer receivables is evaluated based on our internal dealer risk rating analysis, as payment for wholesale receivables generally is not required until the dealer has sold the vehicle. A dealer has the same risk rating for all of its dealer financing regardless of the type of financing.

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

	December 31, 2012			December 31, 2011		
	North America	International	Total	North America	International	Total
Dealer financing						
Group I	\$ 16,591	\$ 4,822	\$ 21,413	\$ 13,588	\$ 5,319	\$ 18,907
Group II	2,608	1,390	3,998	2,654	1,922	4,576
Group III	277	1,277	1,554	331	1,328	1,659
Group IV	18	7	25	10	10	20
Total recorded investment	<u>\$ 19,494</u>	<u>\$ 7,496</u>	<u>\$ 26,990</u>	<u>\$ 16,583</u>	<u>\$ 8,579</u>	<u>\$ 25,162</u>

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. FINANCE RECEIVABLES (Continued)

Impaired Receivables

Impaired consumer receivables include accounts that have been re-written 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, 2012 and 2011 was \$422 million, or 0.9% of consumer receivables, and \$382 million, or 0.8% of consumer receivables, respectively. The recorded investment of non-consumer receivables that were impaired at December 31, 2012 and 2011 was \$47 million, or 0.2% of non-consumer receivables, and \$64 million, or 0.2% of non-consumer receivables, respectively. Impaired finance receivables are evaluated both collectively and specifically. See Note 5 for additional information related to the development of our allowance for credit losses.

Non-Accrual Receivables

The accrual of revenue is discontinued at the earlier of the time a receivable is determined to be uncollectible, at bankruptcy status notification, or greater than 120 days past due. 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.

The recorded investment of consumer receivables in non-accrual status was \$304 million, or 0.6% of our consumer receivables, at December 31, 2012, and \$402 million, or 0.9% of our consumer receivables, at December 31, 2011. The recorded investment of non-consumer receivables in non-accrual status was \$29 million, or 0.1% of our non-consumer receivables, at December 31, 2012, and \$27 million, or 0.1% of our non-consumer receivables, at December 31, 2011.

Troubled Debt Restructurings

A restructuring of debt constitutes a TDR if we grant a concession to a borrower for economic or legal reasons related to the debtor's financial difficulties that we otherwise would not consider. Consumer contracts that have a modified interest rate that is below the market rate and those modified in reorganization proceedings pursuant to the U.S. Bankruptcy Code are considered to be TDRs. Non-consumer receivables subject to forbearance, moratoriums, extension agreements, or other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral are classified as TDRs. We do not grant concessions on the principal balance of our loans. If a contract is modified in reorganization proceeding, all payment requirements of the reorganization plan need to be met before remaining balances are forgiven. The outstanding recorded investment at time of modification for consumer receivables that are considered to be TDRs were \$249 million, or 0.5% and \$370 million, or 0.8% of our consumer receivables, during the years ended December 31, 2012 and 2011, respectively. The subsequent default rate of TDRs that were previously modified in TDRs within the last twelve months and resulted in repossession for consumer contracts was 5.8% and 3.8% of TDRs at December 31, 2012 and 2011, respectively. The outstanding recorded investment of non-consumer loans involved in TDRs was de minimis during the years ended December 31, 2012 and 2011.

Finance receivables involved in TDRs are specifically assessed for impairment. An impairment charge is recorded as part of the provision to the allowance for credit losses for the amount that the recorded investment of the receivable exceeds its estimated fair value. Estimated fair value is based on either the present value of the expected future cash flows of the receivable discounted at the loan's original effective interest rate, or for loans where foreclosure is probable, the fair value of the collateral adjusted for estimated costs to sell. The allowance for credit losses related to consumer TDRs was \$19 million and \$16 million at December 31, 2012 and 2011, respectively. The allowance for credit losses related to non-consumer TDRs was de minimis during the years ended December 31, 2012 and 2011.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4. NET INVESTMENT IN OPERATING LEASES

Net investment in operating leases consist primarily of lease contracts for vehicles with retail customers, daily rental companies, government entities, 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. Initial direct costs related to leases are deferred and amortized over the term of the lease as a reduction to revenue. The accrual of revenue on operating leases is discontinued at the earlier of the time an account is determined to be uncollectible, at bankruptcy status notification, or greater than 120 days past due.

We receive interest supplements and residual support payments on certain leasing transactions under agreements with Ford and other Ford affiliates. Income is recognized in a manner that is consistent with revenue recognition on the underlying financing contracts over the periods that the related leases are outstanding. The unamortized balance of unearned interest supplements and residual support payments on operating leases are included in *Other liabilities and deferred income* on the balance sheet. See Note 9 for additional information.

Depreciation expense on vehicles subject to operating leases is provided 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 (including residual value support payments from Ford) 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 were as follows (in millions):

	December 31, 2012	December 31, 2011
Vehicles, at cost, including initial direct costs	\$ 17,510	\$ 13,545
Less: Accumulated depreciation	(2,786)	(2,407)
Net investment in operating leases before allowance for credit losses (a)	14,724	11,138
Less: Allowance for credit losses	(23)	(40)
Net investment in operating leases	<u>\$ 14,701</u>	<u>\$ 11,098</u>

(a) Includes net investment in operating leases of \$6.3 billion and \$6.4 billion at December 31, 2012 and 2011, respectively, that have been included in securitization transactions but continue to be included in our consolidated financial statements. These net investment in operating leases are available only for payment of the debt and other obligations issued or arising in the 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 and other obligations issued or arising in securitization transactions. See Note 6 for additional information.

The amounts contractually due for minimum rentals on operating leases at December 31, 2012 were as follows (in millions):

	2013	2014	2015	2016	2017
Minimum rentals on operating leases	\$ 1,701	\$ 1,968	\$ 999	\$ 185	\$ 6

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses represents our estimate of the probable loss on the collection of 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 our credit losses are attributable to our 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 investments in 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 written 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. Recoveries on finance receivables and investment in operating leases previously charged-off as uncollectible are credited to the allowance for credit losses.

Consumer

We estimate the allowance for credit losses on our consumer receivables and on our investments in 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 and projected 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 justifiable 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, measured as repossessions
- 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, including any recoveries from the customer

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. Each LTR is calculated by dividing credit losses by average end-of-period receivables or average end-of-period investment in operating leases, excluding unearned interest supplements and allowance for credit losses. An average LTR is calculated for each class and multiplied by the end-of-period balances for that given class.

The loss emergence period ("LEP") is a key 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.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. ALLOWANCE FOR CREDIT LOSSES (*Continued*)

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 loan's original effective interest rate or the fair value of any collateral adjusted for estimated costs to sell.

After establishing the collective and specific allowances 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

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 a 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 allowances 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.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. ALLOWANCE FOR CREDIT LOSSES (Continued)

Following is an analysis of the allowance for credit losses related to finance receivables and net investment in operating leases for the years ended December 31 (in millions):

	2012				
	Finance Receivables			Net Investment in	Total Allowance
	Consumer	Non-Consumer	Total	Operating Leases	
Allowance for credit losses					
Beginning balance	\$ 451	\$ 43	\$ 494	\$ 40	\$ 534
Charge-offs	(311)	(8)	(319)	(47)	(366)
Recoveries	169	12	181	49	230
Provision for credit losses	44	(18)	26	(19)	7
Other (a)	3	—	3	—	3
Ending balance	<u>\$ 356</u>	<u>\$ 29</u>	<u>\$ 385</u>	<u>\$ 23</u>	<u>\$ 408</u>
Analysis of ending balance of allowance for credit losses					
Collective impairment allowance	\$ 337	\$ 27	\$ 364	\$ 23	\$ 387
Specific impairment allowance	19	2	21	—	21
Ending balance	<u>\$ 356</u>	<u>\$ 29</u>	<u>\$ 385</u>	<u>\$ 23</u>	<u>\$ 408</u>
Analysis of ending balance of finance receivables and net investment in operating leases					
Collectively evaluated for impairment	\$ 46,560	\$ 28,419	\$ 74,979	\$ 14,724	
Specifically evaluated for impairment	422	47	469	—	
Recorded investment (b)	<u>\$ 46,982</u>	<u>\$ 28,466</u>	<u>\$ 75,448</u>	<u>\$ 14,724</u>	
Ending balance, net of allowance for credit losses	<u>\$ 46,626</u>	<u>\$ 28,437</u>	<u>\$ 75,063</u>	<u>\$ 14,701</u>	

(a) Represents amounts related to translation adjustments.

(b) Represents finance receivables and net investment in operating leases before allowance for credit losses.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. ALLOWANCE FOR CREDIT LOSSES (Continued)

	2011				
	Finance Receivables			Net Investment in	Total Allowance
	Consumer	Non-Consumer	Total	Operating Leases	
Allowance for credit losses					
Beginning balance	\$ 701	\$ 66	\$ 767	\$ 87	\$ 854
Charge-offs	(400)	(10)	(410)	(89)	(499)
Recoveries	205	7	212	86	298
Provision for credit losses	(54)	(20)	(74)	(44)	(118)
Other (a)	(1)	—	(1)	—	(1)
Ending balance	<u>\$ 451</u>	<u>\$ 43</u>	<u>\$ 494</u>	<u>\$ 40</u>	<u>\$ 534</u>
Analysis of ending balance of allowance for credit losses					
Collective impairment allowance	\$ 435	\$ 35	\$ 470	\$ 40	\$ 510
Specific impairment allowance	16	8	24	—	24
Ending balance	<u>\$ 451</u>	<u>\$ 43</u>	<u>\$ 494</u>	<u>\$ 40</u>	<u>\$ 534</u>
Analysis of ending balance of finance receivables and net investment in operating leases					
Collectively evaluated for impairment	\$ 45,497	\$ 26,458	\$ 71,955	\$ 11,138	
Specifically evaluated for impairment	382	64	446	—	
Recorded investment (b)	<u>\$ 45,879</u>	<u>\$ 26,522</u>	<u>\$ 72,401</u>	<u>\$ 11,138</u>	
Ending balance, net of allowance for credit losses	<u>\$ 45,428</u>	<u>\$ 26,479</u>	<u>\$ 71,907</u>	<u>\$ 11,098</u>	

(a) Represents amounts related to translation adjustments.

(b) Represents finance receivables and net investment in operating leases before allowance for credit losses.

NOTE 6. 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 many different institutional investors in both public and private transactions in capital markets primarily in North America and Europe.

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 residual interests 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.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6. TRANSFERS OF RECEIVABLES (Continued)

Receivables Classification

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. Receivables that are classified as HFI are recorded at cost. 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. Once a decision has been made to sell specific receivables not previously classified as held for sale ("HFS"), such receivables are transferred into the HFS classification and carried at the lower of cost or fair value. Any amount by which cost exceeds fair value is accounted for as a valuation allowance with the offset recorded to income. We use internally developed quantitative methods to determine fair value that incorporate appropriate funding pricing and enhancement requirements, as well as estimates concerning credit losses and prepayments.

Regardless of receivables classification, retained interests related to sold receivables are classified and accounted for as available-for-sale securities. The initial receipt of retained interests represents a non-cash transfer and subsequent cash flows related to repayment of the retained interests are recorded as an investing activity.

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. Each quarter, we make a determination of whether it is probable that receivables originated 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 also consider off-balance sheet funding channels in connection with our quarterly receivables classification determination.

Held for Investment

Finance receivables originated during the quarter for which we determine that it is probable we will hold for the following twelve months are classified as HFI and carried at amortized cost. All retail and wholesale receivables are classified as HFI at origination during all periods presented. Cash flows resulting from the purchase of these receivables that are originally classified as HFI are recorded as an investing activity. Once a decision has been made to sell specifically identified receivables that were originally classified as HFI and the receivables are sold in the same reporting period, the receivables are reclassified as HFS and simultaneously removed from the balance sheet. The fair value adjustment is incorporated and recognized in the net gain or loss on sale of receivables and reported in *Other income, net*. In the event that receivables have been selected for an off-balance sheet transaction that has not occurred at the end of the reporting period, the receivables are reclassified as HFS and a valuation adjustment is recorded in *Other income, net* to recognize the receivables at the lower of cost or fair value. Cash flows resulting 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 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 purchase of these receivables are recorded as an operating activity. The valuation adjustment, if applicable, is recorded in *Other income, net* to recognize the receivables at the lower of cost or fair value. Once specifically identified receivables that were originally 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. Cash flows resulting from the sale of receivables that were originally classified as HFS are recorded as an operating activity. As a result of our accounting for any retained interests related to sold receivables as available-for-sale securities, there will be a net operating cash outflow impact for these receivables since the cash flows related to the retained interests will be classified as investing cash inflows. At December 31, 2012 and 2011, there were no finance receivables classified as HFS.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6. 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 and net investment in operating leases that have been included in securitization transactions are available only for payment of the debt and other obligations issued or arising in the securitization transactions. They are not available to pay our other obligations or the claims of our other creditors. We hold the right to the excess cash flows not needed to pay the debt and other obligations issued or arising in the 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 7 for more information concerning VIEs. The following tables show the assets and debt related to our securitization transactions that were included in our financial statements (in billions):

	December 31, 2012				
	Finance Receivables and Net Investment in Operating Leases (a)				Related Debt
	Cash and Cash Equivalents	Before Allowance for Credit Losses	Allowance for Credit Losses	After Allowance for Credit Losses	
VIE (b)					
Retail (c)	\$ 2.2	\$ 26.9	\$ 0.2	\$ 26.7	\$ 23.2
Wholesale	0.3	20.5	—	20.5	12.8
Finance receivables	2.5	47.4	0.2	47.2	36.0
Net investment in operating leases	0.4	6.3	—	6.3	4.2
Total VIE	\$ 2.9	\$ 53.7	\$ 0.2	\$ 53.5	\$ 40.2
Non-VIE					
Retail (c)	\$ 0.1	\$ 2.4	\$ —	\$ 2.4	\$ 2.2
Wholesale	—	1.1	—	1.1	1.0
Finance receivables	0.1	3.5	—	3.5	3.2
Net investment in operating leases	—	—	—	—	—
Total Non-VIE	\$ 0.1	\$ 3.5	\$ —	\$ 3.5	\$ 3.2
Total securitization transactions					
Retail (c)	\$ 2.3	\$ 29.3	\$ 0.2	\$ 29.1	\$ 25.4
Wholesale	0.3	21.6	—	21.6	13.8
Finance receivables	2.6	50.9	0.2	50.7	39.2
Net investment in operating leases	0.4	6.3	—	6.3	4.2
Total securitization transactions	\$ 3.0	\$ 57.2	\$ 0.2	\$ 57.0	\$ 43.4

(a) Unearned interest supplements are excluded from securitization transactions.

(b) Includes assets to be used to settle the liabilities of the consolidated VIEs.

(c) Includes direct financing leases.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6. TRANSFERS OF RECEIVABLES (Continued)

	December 31, 2011				
	Finance Receivables and Net Investment in Operating Leases (a)				Related Debt
	Cash and Cash Equivalents	Before Allowance for Credit Losses	Allowance for Credit Losses	After Allowance for Credit Losses	
VIE (b)					
Retail (c)	\$ 2.5	\$ 31.7	\$ 0.3	\$ 31.4	\$ 26.0
Wholesale	0.5	17.9	—	17.9	11.2
Finance receivables	3.0	49.6	0.3	49.3	37.2
Net investment in operating leases	0.4	6.4	—	6.4	4.2
Total VIE	\$ 3.4	\$ 56.0	\$ 0.3	\$ 55.7	\$ 41.4
Non-VIE					
Retail (c)	\$ 0.3	\$ 4.3	\$ —	\$ 4.3	\$ 3.8
Wholesale	—	1.9	—	1.9	1.5
Finance receivables	0.3	6.2	—	6.2	5.3
Net investment in operating leases	—	—	—	—	—
Total Non-VIE	\$ 0.3	\$ 6.2	\$ —	\$ 6.2	\$ 5.3
Total securitization transactions					
Retail (c)	\$ 2.8	\$ 36.0	\$ 0.3	\$ 35.7	\$ 29.8
Wholesale	0.5	19.8	—	19.8	12.7
Finance receivables	3.3	55.8	0.3	55.5	42.5
Net investment in operating leases	0.4	6.4	—	6.4	4.2
Total securitization transactions	\$ 3.7	\$ 62.2	\$ 0.3	\$ 61.9	\$ 46.7

- (a) Unearned interest supplements are excluded from securitization transactions.
(b) Includes assets to be used to settle the liabilities of the consolidated VIEs.
(c) Includes direct financing leases.

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

	2012	2011	2010
VIE	\$ 760	\$ 994	\$ 1,247
Non-VIE	94	142	224
Total securitization transactions	\$ 854	\$ 1,136	\$ 1,471

Certain of our securitization entities 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 many instances, the counterparty enters into offsetting derivative transactions with us to mitigate their interest rate risk resulting from derivatives with our securitization entities. See Note 8 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 were as follows (in millions):

	December 31, 2012		December 31, 2011	
	Derivative Asset	Derivative Liability	Derivative Asset	Derivative Liability
Derivatives of the VIEs	\$ 4	\$ 134	\$ 157	\$ 97
Derivatives related to the VIEs	74	63	81	63
Other securitization related derivatives	11	22	12	25
Total exposures related to securitization	\$ 89	\$ 219	\$ 250	\$ 185

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6. TRANSFERS OF RECEIVABLES (Continued)

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

	2012	2011	2010
VIEs	\$ 227	\$ 31	\$ 225
Related to the VIEs	(5)	11	(73)
Other securitization related derivatives	17	19	15
Total derivative expense/(income) related to securitization	<u>\$ 239</u>	<u>\$ 61</u>	<u>\$ 167</u>

NOTE 7. 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 the 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. Conversely, 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.

VIEs of Which We are the Primary Beneficiary

We use special purpose entities to issue asset-backed securities in transactions to public and private investors, bank conduits, and government-sponsored entities or others who obtain funding from government programs. We have deemed most of these special purpose entities to be VIEs. The asset-backed securities are secured 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 the excess cash flows not needed to pay the debt and other obligations issued or arising in the 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 – consumer credit risk and pre-payment risk
- Wholesale – 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
- 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.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7. 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 under standard representations and warranties such as good and marketable title to the assets, 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 have reduced their risks by entering into derivative transactions. In certain instances, we have entered into offsetting derivative transactions with the VIE to protect the VIE from the risks that are not mitigated through the derivative transactions between the VIE and its external counterparty. In other instances, we have entered into derivative transactions with the counterparty to protect the counterparty from risks absorbed through their 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 December 31, 2012 and 2011, and ranged from \$0 to \$373 million during 2012 and \$0 to \$490 million during 2011. In addition, while not contractually required, we may purchase the commercial paper issued by our FCAR Owner Trust asset-backed commercial paper program.

See Note 6 for information on the financial position and financial performance of our VIEs and Notes 8 and 18 for additional information regarding derivatives.

VIEs of Which We are Not the Primary Beneficiary

We have an investment in Forso Nordic AB, a joint venture determined to be a VIE of which we are not the primary beneficiary. The joint venture provides consumer and dealer financing in its local markets and is financed by external debt and additional subordinated debt provided by the joint venture partner. The operating agreement indicates that the power to direct economically significant activities is shared with the joint venture partner, and the obligation to absorb losses or right to receive benefits resides primarily with the joint venture partner. Our investment in the joint venture is accounted for as an equity method investment and is included in *Other assets*. Our maximum exposure to any potential losses associated with this VIE is limited to our equity investment and amounted to \$71 million at December 31, 2012 and 2011.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8. 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 various derivative contracts:

- Interest rate contracts including swaps, caps and floors that are used to manage the effects of interest rate fluctuations;
- Foreign currency exchange contracts 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.

Our derivatives are over-the-counter customized derivative transactions and are not exchange traded. We review our hedging program, derivative positions, and overall risk management strategy on a regular basis.

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. Cash flows and the profit impact associated with designated hedges are reported in the same category as the underlying hedged item.

Some derivatives do not qualify for hedge accounting; for others, we elect not to apply hedge accounting. Regardless, we only enter into transactions that we believe will be highly effective at offsetting the underlying economic risk. We report net interest settlements and accruals and changes in the fair value of derivatives not designated as hedging instruments through *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.

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 record the changes in the fair value of the hedged debt related to the risk being hedged in *Debt* with the offset in *Other income, net*. The change in fair value of the related derivative (excluding accrued interest) also is recorded in *Other income, net*.

Net interest settlements and accruals on fair value hedges are excluded from the assessment of hedge effectiveness. We report net interest settlements and accruals in *Interest expense*. We report foreign currency revaluation on accrued interest in *Other income, net*. 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 amortized over its remaining life.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

Income Effect of Derivative Financial Instruments

The following table summarizes by hedge designation the pre-tax gains/(losses) recognized in income for the years ended December 31 (in millions):

	2012	2011	2010
Fair value hedges			
Interest rate contracts			
Net interest settlements and accruals excluded from the assessment of hedge effectiveness	\$ 177	\$ 217	\$ 225
Ineffectiveness (a)	16	(30)	(6)
Total	<u>\$ 193</u>	<u>\$ 187</u>	<u>\$ 219</u>
Derivatives not designated as hedging instruments			
Interest rate contracts	\$ (33)	\$ (25)	\$ 20
Foreign currency exchange contracts (b)	(104)	28	61
Cross-currency interest rate swap contracts (b)	(150)	(3)	(1)
Other (c)	(81)	65	—
Total	<u>\$ (368)</u>	<u>\$ 65</u>	<u>\$ 80</u>

(a) For 2012, 2011 and 2010, hedge ineffectiveness reflects change in fair value on derivatives of \$228 million gain, \$433 million gain and \$117 million gain, respectively, and change in value on hedged debt attributable to the change in benchmark interest rate of \$212 million loss, \$463 million loss and \$123 million loss, respectively.

(b) Gains/(Losses) related to foreign currency derivatives were mostly offset by net revaluation impacts on foreign denominated debt, which were also recorded in *Other income, net*.

(c) Reflects gains/(losses) for derivative features included in the Ford Upgrade Exchange Linked ("FUEL") notes (see Note 18).

Balance Sheet Effect of Derivative Financial Instruments

The following table summarizes the notional amount and estimated fair value of our derivative financial instruments (in millions):

	December 31, 2012			December 31, 2011		
	Notional	Fair Value of Assets	Fair Value of Liabilities	Notional	Fair Value of Assets	Fair Value of Liabilities
Fair value hedges						
Interest rate contracts	\$ 16,754	\$ 787	\$ 8	\$ 7,786	\$ 526	\$ —
Derivatives not designated as hedging instruments						
Interest rate contracts	68,622	460	248	70,348	637	237
Foreign currency exchange contracts (a)	1,987	9	27	3,079	53	37
Cross-currency interest rate swap contracts	3,006	—	117	987	12	12
Other (b)	—	—	—	2,500	137	—
Total derivatives not designated as hedging instruments	<u>73,615</u>	<u>469</u>	<u>392</u>	<u>76,914</u>	<u>839</u>	<u>286</u>
Total derivative financial instruments	<u>\$ 90,369</u>	<u>\$ 1,256</u>	<u>\$ 400</u>	<u>\$ 84,700</u>	<u>\$ 1,365</u>	<u>\$ 286</u>

(a) Includes forward contracts between Ford Credit and an affiliated company.

(b) Represents derivative features included in the FUEL notes. The derivative features included in the FUEL notes were extinguished as a result of the mandatory exchange of the FUEL notes to unsecured notes in the second quarter of 2012 (see Note 18).

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

We report derivative assets and derivative liabilities in *Derivative financial instruments* in our balance sheet at fair value. We do not net our derivative position by counterparty for purposes of balance sheet presentation and disclosure. We do, however, consider our net position for determining fair value.

The notional amounts of the derivative financial instruments do not represent amounts exchanged by the parties and, therefore, are not a direct measure of our exposure to the financial risks described above. Notional amounts are presented on a gross basis with no netting of offsetting exposure positions. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as interest rates or foreign currency exchange rates.

Counterparty Risk

The use of derivatives exposes us to the risk that a counterparty may default on a derivative contract. We establish exposure limits for each counterparty to minimize this risk and provide counterparty diversification. Substantially all of our derivative exposures are with counterparties that have an investment grade rating. The aggregate fair value of derivative instruments in asset positions at December 31, 2012 was \$1.3 billion, representing the maximum loss we would recognize at that date if all counterparties failed to perform as contracted. We enter into master agreements with counterparties that generally allow for netting of certain exposures; therefore, the actual loss we would recognize if all counterparties failed to perform as contracted would be lower.

We include an adjustment for non-performance risk in the measurement of fair value of derivative instruments. Our adjustment for non-performance risk relative to a measure based on an unadjusted inter-bank deposit rate (e.g., LIBOR) decreased our derivative assets by \$14 million and \$52 million at December 31, 2012 and 2011, respectively, and decreased our derivative liabilities by \$5 million and \$7 million at December 31, 2012 and 2011, respectively. See Note 18 for additional information regarding valuation methodologies.

NOTE 9. OTHER ASSETS AND OTHER LIABILITIES AND DEFERRED INCOME

Other assets and other liabilities and deferred income 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 were as follows (in millions):

	December 31, 2012	December 31, 2011
Accrued interest and other non-finance receivables	\$ 719	\$ 635
Collateral held for resale, at net realizable value	332	374
Restricted cash (a)	148	121
Deferred charges	261	281
Deferred charges – income taxes	184	156
Prepaid reinsurance premiums and other reinsurance receivables	288	252
Investment in non-consolidated affiliates	140	141
Property and equipment, net of accumulated depreciation (b)	125	137
Other	59	75
Total other assets	<u>\$ 2,256</u>	<u>\$ 2,172</u>

(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.

(b) Accumulated depreciation was \$331 million and \$383 million at December 31, 2012 and 2011, respectively.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9. OTHER ASSETS AND OTHER LIABILITIES AND DEFERRED INCOME (Continued)

Other liabilities and deferred income were as follows (in millions):

	December 31, 2012	December 31, 2011
Interest payable	\$ 706	\$ 812
Deferred interest supplements and residual support payments on net investment in operating leases	1,147	962
Income taxes payable to Ford and affiliated companies (a)	549	660
Unrecognized tax benefits	462	535
Unearned insurance premiums	299	266
Other	295	358
Total other liabilities and deferred income	<u>\$ 3,458</u>	<u>\$ 3,593</u>

(a) In 2012 and 2011, we paid \$99 million and \$1.4 billion, respectively, to Ford in accordance with our intercompany tax sharing agreement.

NOTE 10. DEBT

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 floating rate demand notes program. We have certain asset-backed securitization programs that issue short-term 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. Obligations issued in securitizations are payable only out of collections on the underlying securitized assets and related enhancements.

Debt is recorded on our balance sheet at par value adjusted for unamortized discount or premium (with the exception of fair value adjustments related to debt in designated hedge relationships; see Note 8 for further policy 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 generally are capitalized and amortized over the life of the debt or put date and recorded in *Interest expense* using the effective interest method. Gains and losses on the extinguishment of debt are recorded in *Other income, net*.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10. DEBT (Continued)

Interest rates and debt outstanding were as follows (in millions):

	Interest Rates				Debt	
	Average Contractual		Average Effective			
	2012	2011	2012	2011	December 31, 2012	December 31, 2011
Short-term debt						
Asset-backed commercial paper	0.4%	0.3%			\$ 5,752	\$ 6,835
Floating rate demand notes	1.1%	1.3%			4,890	4,713
Other asset-backed short-term debt	1.1%	1.5%			3,616	2,741
Commercial paper	1.2%	5.4%			1,686	156
Other short-term debt	4.7%	7.0%			1,434	1,579
Total short-term debt	1.1%	1.4%	1.1%	1.4%	17,378	16,024
Long-term debt						
Senior indebtedness						
Notes payable within one year					5,557	6,127
Notes payable after one year					31,656	24,892
Asset-backed debt						
Notes payable within one year					13,788	16,526
Notes payable after one year					20,216	20,558
Unamortized discount					(128)	(149)
Fair value adjustments					791	681
Total long-term debt	3.8%	4.2%	4.1%	4.6%	71,880	68,635
Total debt	3.3%	3.7%	3.5%	4.0%	\$ 89,258	\$ 84,659
Fair value of debt						
					\$ 92,799	\$ 86,785

Interest rates are presented for the fourth quarter of 2012 and 2011. 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.

The fair value of debt reflects interest accrued but not yet paid of \$708 million and \$875 million at December 31, 2012 and 2011, respectively. Interest accrued is reported in *Other liabilities and deferred income* for outside debt and *Accounts payable - affiliated companies* for debt with affiliated companies. The fair value of debt also includes \$8.0 billion and \$6.4 billion of short-term debt at December 31, 2012 and 2011, respectively, carried at cost which approximates fair value. All debt is categorized within Level 2 of the fair value hierarchy. See Note 18 for additional information.

Debt with affiliated companies included in the above table was as follows (in millions):

	December 31, 2012	December 31, 2011
Other short-term debt	\$ 28	\$ 48
Notes payable within one year	4	466
Notes payable after one year	340	91
Total debt with affiliated companies	\$ 372	\$ 605

Debt Repurchases and Calls. From time to time and based on market conditions, we may repurchase or call some of our outstanding unsecured and asset-backed debt. If we have excess liquidity and it is an economically favorable use of our available cash, we may repurchase or call debt at a price lower or higher than its carrying value, resulting in a gain or loss on extinguishment.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10. DEBT (Continued)

In 2012, through market transactions, we repurchased and called an aggregate principal amount of \$628 million (including \$43 million maturing in 2012) of our unsecured and asset-backed debt. As a result, we recorded a pre-tax loss of \$14 million, net of unamortized premiums, discounts, and fees in *Other income, net*.

In 2011, through market transactions, we repurchased and called an aggregate principal amount of \$2.3 billion (including \$266 million maturing in 2011) of our unsecured debt. As a result, we recorded a pre-tax loss of \$66 million, net of unamortized premiums, discounts, and fees in *Other income, net*. There were no repurchase or call transactions for asset-backed debt during 2011.

In 2010, through market transactions, we repurchased and called an aggregate principal amount of \$5.6 billion (including \$683 million maturing in 2010) of our unsecured and asset-backed debt. As a result, we recorded a pre-tax loss of \$139 million, net of unamortized premiums, discounts and fees in *Other income, net*.

Debt Maturities. Short-term and long-term debt matures at various dates through 2048. At December 31, 2012, maturities were as follows (in millions):

	2013 (a)	2014	2015	2016	2017	Thereafter (b)	Total
Unsecured debt	\$ 13,567	\$ 3,965	\$ 9,093	\$ 4,750	\$ 6,231	\$ 7,617	\$ 45,223
Asset-backed debt	23,156	12,341	4,988	1,301	1,586	—	43,372
Unamortized (discount)/premium (c)	(1)	(76)	(19)	(15)	(15)	(2)	(128)
Fair value adjustments (c)	33	25	84	43	148	458	791
Total debt	<u>\$ 36,755</u>	<u>\$ 16,255</u>	<u>\$ 14,146</u>	<u>\$ 6,079</u>	<u>\$ 7,950</u>	<u>\$ 8,073</u>	<u>\$ 89,258</u>

(a) Includes \$17,378 million for short-term and \$19,377 million for long-term debt.

(b) Includes \$7,600 million of unsecured debt maturing between 2018 and 2022 with the remaining balance maturing after 2031.

(c) Presented based on contractual payment date of related debt.

Credit Facilities

At December 31, 2012, we and our majority-owned subsidiaries had \$922 million of contractually-committed unsecured credit facilities with financial institutions, including FCE Bank plc's ("FCE") £440 million (equivalent to \$713 million at December 31, 2012) syndicated credit facility (the "FCE Credit Agreement") which matures in 2014.

At December 31, 2012, \$866 million was available for use. In January 2013, FCE drew £330 million (equivalent to about \$535 million) of its syndicated facility. The FCE Credit Agreement contains certain covenants, including an obligation of FCE to maintain its ratio of regulatory capital to risk weighted assets at no less than the applicable regulatory minimum, and for the support agreement between FCE and us to remain in full force and effect (and enforced by FCE to ensure that its net worth is maintained at no less than \$500 million). In addition to customary payment, representation, bankruptcy and judgment defaults, the FCE Credit Agreement contains cross-payment and cross-acceleration defaults with respect to other debt.

In addition, at December 31, 2012, we had \$6.3 billion of contractually-committed liquidity facilities provided by banks to support our FCAR program, of which \$3.3 billion expire in 2013 and \$3.0 billion expire in 2014. Utilization of these facilities is subject to conditions specific to the FCAR program and our having a sufficient amount of eligible retail assets for securitization. The FCAR program must be supported by liquidity facilities equal to at least 100% of its outstanding balance. At December 31, 2012, \$6.3 billion of FCAR's bank liquidity facilities were available to support FCAR's asset-backed commercial paper, subordinated debt, or FCAR's purchase of our asset-backed securities. At December 31, 2012, the outstanding commercial paper balance for the FCAR program was \$5.8 billion.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10. DEBT (Continued)

Committed Liquidity Programs

We and our subsidiaries, including FCE, 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 or wholesale assets or to purchase or make advances under asset-backed securities backed by retail, lease, or wholesale assets for proceeds of up to \$24.3 billion (\$12.9 billion of retail, \$7.0 billion of wholesale, and \$4.4 billion of lease assets) at December 31, 2012, of which \$4.9 billion are commitments to FCE. These committed liquidity programs have varying maturity dates, with \$23.4 billion (of which \$4.2 billion relates to FCE commitments), having maturities within the next twelve months and the remaining balance having maturities between April 2014 and October 2014. We plan to achieve capacity renewals to protect our global funding needs, optimize capacity utilization and maintain sufficient liquidity.

Our ability to obtain funding under these programs is subject to having a sufficient amount of assets eligible for these programs as well as our ability to obtain interest rate hedging arrangements for certain securitization transactions. Our capacity in excess of eligible receivables protects us against the risk of lower than planned renewal rates. At December 31, 2012, \$12.3 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.

NOTE 11. 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.

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

	2012	2011	2010
Current			
Federal	\$ 4	\$ 680	\$ 1,249
Non-U.S.	55	109	82
State and local	(14)	32	182
Total current	45	821	1,513
Deferred			
Federal	413	(316)	(261)
Non-U.S.	14	63	—
State and local	11	41	(146)
Total deferred	438	(212)	(407)
Provision for income taxes	\$ 483	\$ 609	\$ 1,106

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11. INCOME TAXES (Continued)

A reconciliation of the *Provision for income taxes* with the United States statutory tax rate as a percentage of *Income before income taxes*, excluding equity in net income of affiliated companies, net income attributable to noncontrolling interests, and income from discontinued operations, for the years ended December 31 is as follows:

	2012	2011	2010
U.S. statutory tax rate	35.0%	35.0%	35.0%
Effect of (in percentage points):			
Non-U.S. tax rates under U.S. rate	(1.6)	(1.9)	(1.6)
State and local income taxes	(1.0)	1.1	0.7
U.S. tax on non-U.S. earnings	(1.2)	(10.3)	1.6
Other	1.1	1.4	0.5
Valuation allowance (a)	(3.8)	—	—
Effective tax rate	28.5%	25.3%	36.2%

(a) During 2012, we released a valuation allowance against certain deferred tax assets in South America, resulting in a favorable impact to the income tax provision of \$64 million.

We have historically provided deferred taxes for the presumed repatriation to the United States of earnings from nearly all non-U.S. subsidiaries. During 2011, we determined that \$3.6 billion of these non-U.S. subsidiaries' undistributed earnings are now indefinitely reinvested outside the United States. As management has determined that the earnings of these subsidiaries are not required as a source of funding for its U.S. operations, such earnings are not planned to be distributed to the U.S. in the foreseeable future. As a result of the change in assertion, deferred tax liabilities related to undistributed foreign earnings decreased by approximately \$250 million.

At December 31, 2012, \$4.2 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 a residual U.S. tax liability of \$962 million.

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 operating loss 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.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11. INCOME TAXES (Continued)

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

	December 31, 2012	December 31, 2011
Deferred tax assets		
Net operating loss carryforwards	\$ 366	\$ 469
Provision for credit losses	127	175
Other foreign	175	227
Employee benefit plans	13	125
Foreign tax credits	122	3
Other	209	277
Total gross deferred tax assets	1,012	1,276
Less: Valuation allowance	(68)	(125)
Total net deferred tax assets	<u>\$ 944</u>	<u>\$ 1,151</u>
Deferred tax liabilities		
Leasing transactions	\$ 1,138	\$ 925
Finance receivables	614	548
Other foreign	647	588
Other	30	68
Total deferred tax liabilities	2,429	2,129
Net deferred tax liability	<u>\$ 1,485</u>	<u>\$ 978</u>

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 represent amounts primarily due from Ford. 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 \$1.2 billion at December 31, 2012, resulting in a deferred tax asset of \$366 million. A substantial portion of these losses begin to expire in 2029; the remaining losses will begin to expire in 2018. Tax benefits of operating loss 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.

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*.

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

	2012	2011	2010
Beginning balance	\$ 535	\$ 533	\$ 614
Increase - tax positions in prior periods	54	25	120
Increase - tax positions in current period	7	—	—
Decrease - tax positions in prior periods	(54)	(2)	(14)
Settlements	(51)	(17)	(187)
Lapse of statute of limitations	—	(4)	—
Ending balance	<u>\$ 491</u>	<u>\$ 535</u>	<u>\$ 533</u>

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11. INCOME TAXES (*Continued*)

The amount of unrecognized tax benefits at December 31, 2012, 2011 and 2010 that would impact the effective tax rate if recognized, was \$155 million, \$217 million, and \$104 million, respectively. We expect the unrecognized tax benefits balance to decrease by approximately \$300 million over the next twelve months as a result of settling the U.S. federal income tax deficiencies related to tax years 2008 and 2009 in accordance with our intercompany tax sharing agreement with Ford.

We have settled our U.S. federal income tax deficiencies related to tax years prior to 2008 in accordance with our intercompany tax sharing agreement with Ford. The Ford consolidated tax return is currently under examination for the 2010 and 2011 tax years. Examinations by tax authorities have been completed through 2004 in Germany, 2006 in Canada, and 2010 in the United Kingdom. Although examinations have been completed in these jurisdictions, various unresolved transfer pricing disputes exist dating back to 2000.

We recognize accrued interest expense related to unrecognized tax benefits in jurisdictions where we file tax returns separate from Ford and income tax related penalties in *Provision for income taxes*. For the years ended December 31, 2012, 2011 and 2010, we recorded \$21 million in net tax related interest expense, \$11 million in net tax related interest income and \$7 million in net tax related interest expense, respectively, in our income statement. At December 31, 2012 and 2011, we recorded a net payable of \$56 million and \$33 million, respectively, for tax related interest in *Other liabilities and deferred income*.

NOTE 12. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in the accumulated balances for each component of accumulated other comprehensive income ("AOCI") for the years ended December 31 were as follows (in millions):

	2012	2011	2010
Foreign currency translation			
Beginning balance	\$ 600	\$ 821	\$ 1,052
Net gain/(loss) on foreign currency translation (net of tax of \$0)	143	(161)	(106)
Reclassifications to net income (net of tax of \$0) (a)	—	(60)	—
Reclassifications from shareholder's interest (net of tax of \$0) (b)	—	—	(125)
Other comprehensive income/(loss), net of tax	143	(221)	(231)
Ending balance	<u>\$ 743</u>	<u>\$ 600</u>	<u>\$ 821</u>
Total AOCI ending balance at December 31	\$ 743	\$ 600	\$ 821

(a) Refer to Note 14 for additional information.

(b) We recorded a \$125 million out-of-period adjustment related to foreign currency translations during 2010 which decreased *Accumulated other comprehensive income* and increased *Shareholder's interest*. This adjustment did not impact our *Total shareholder's interest* on our balance sheet. The impact on previously issued annual and interim financial statements was not material.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 13. INSURANCE

We conduct insurance underwriting operations primarily through The American Road Insurance Company ("TARIC") and other subsidiaries. TARIC is a wholly owned subsidiary of Ford Credit. TARIC offers a variety of products and services, including contractual liability insurance on extended service contracts, physical damage insurance covering vehicles at dealer locations and vehicles in-transit between final assembly plants and dealer locations, commercial automobile liability and general liability to support Ford business operations, physical damage/liability reinsurance covering Ford dealer daily rental vehicles, and surety bonds issued to Ford and its subsidiaries.

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.

TARIC is required by law to maintain deposits with regulatory authorities. These deposited securities totaled \$13 million and \$14 million at December 31, 2012 and 2011, respectively.

Insurance Expenses and Liabilities

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

	2012	2011	2010
Insurance losses	\$ 75	\$ 77	\$ 43
Loss adjustment expenses	4	6	4
Reinsurance income and other expenses, net	(9)	(3)	(1)
Insurance expenses	<u>\$ 70</u>	<u>\$ 80</u>	<u>\$ 46</u>

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. The reserve for reported insurance losses and an estimate of unreported insurance losses, based on past experience, was \$6 million and \$14 million at December 31, 2012 and 2011, respectively, and was included in *Other liabilities and deferred income*.

Reinsurance

TARIC's reinsurance activity primarily consists of ceding a majority of its automotive extended service plan contracts for a ceding commission. Amounts recoverable from reinsurers on unpaid losses, including incurred but not reported losses, and amounts paid to reinsurers relating to the unexpired portion of reinsurance contracts are reported in *Other assets*. Ceded insurance expenses that were deducted from the amounts reported as *Insurance expenses* were \$64 million, \$74 million and \$87 million for the years ended December 31, 2012, 2011 and 2010, respectively.

The effect of reinsurance on premiums written and earned was as follows for the years ended December 31 (in millions):

	2012		2011		2010	
	Written	Earned	Written	Earned	Written	Earned
Direct	\$ 234	\$ 202	\$ 219	\$ 205	\$ 167	\$ 229
Assumed	2	2	8	8	4	5
Ceded	(136)	(99)	(137)	(113)	(89)	(136)
Net premiums	<u>\$ 100</u>	<u>\$ 105</u>	<u>\$ 90</u>	<u>\$ 100</u>	<u>\$ 82</u>	<u>\$ 98</u>

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 13. INSURANCE (*Continued*)

Commissions on reinsurance ceded 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.

NOTE 14. OTHER INCOME

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* are as follows for the years ended December 31 (in millions):

	2012	2011	2010
Gains/(Losses) on extinguishment of debt	\$ (14)	\$ (66)	\$ (139)
Gains/(Losses) on derivatives (a)	(352)	33	64
Currency revaluation gains/(losses) (a)(b)	236	(11)	(92)
Interest and investment income	85	98	109
Insurance fee income	65	83	79
Other	266	165	202
Total other income, net	<u>\$ 286</u>	<u>\$ 302</u>	<u>\$ 223</u>

(a) Currency revaluation gains/(losses) primarily related to foreign denominated debt were mostly offset by gains/(losses) on derivatives. See Note 8 for detail by derivative instrument and risk type.

(b) Included in 2011 is a \$60 million net gain for foreign currency translation adjustments related to the strategic decision to exit retail and wholesale financing in certain Asia Pacific markets. See Note 17 for additional information.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 15. EMPLOYEE SEPARATION ACTIONS

We continuously monitor and manage the cost structure of our business to remain competitive within the industry. Restructuring charges related to employee separation actions are provided by segment.

The costs of voluntary employee separation actions are recorded in *Operating expenses* at the time of employee acceptance, unless the acceptance requires explicit approval by us. The costs of conditional voluntary separations are accrued when all conditions are satisfied. The costs of involuntary separation programs are accrued when management has approved the program and the affected employees are identified.

North America Segment

In the first quarter of 2011, we announced plans to cease operations at one of our loss prevention centers in the U.S. The restructuring occurred through involuntary separations, attrition and retirements. In 2011, we recognized pre-tax charges of \$7 million as a result of employee separation actions.

In the first quarter of 2010, we announced plans to continue to restructure our U.S. operations to meet changing business conditions, including the decline in our receivables. The restructuring occurred through involuntary separations, attrition and retirements. In 2010, we recognized pre-tax charges of \$15 million as a result of employee separation actions.

International Segment

In 2012, we recognized pre-tax charges of \$8 million (including \$1 million for retirement plan benefits) for employee separation actions primarily in European locations.

In 2011, we recognized pre-tax charges of \$18 million (including \$3 million for retirement plan benefits) for employee separation actions primarily in European and Asia-Pacific Africa locations.

In 2010, we recognized pre-tax charges of \$21 million (including \$2 million for retirement plan benefits) for employee separation actions primarily in European locations.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 16. RETIREMENT BENEFITS AND SHARE-BASED COMPENSATION

We are a participating employer in certain retirement, postretirement health care and life insurance, and share-based compensation plans that are sponsored by Ford. Share-based compensation plans are outstanding under Ford's two Long-Term Incentive Plans ("LTIP"): the 1998 LTIP and the 2008 LTIP. No further grants may be made under the 1998 LTIP. Grants may continue to be made under the 2008 LTIP through April 2018. Ford primarily issues two types of share-based compensation awards: stock options and restricted stock units ("RSU").

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, 2012, 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 (for example, discount rate and average rate of increase in compensation) that Ford uses in determining its retirement plan obligations. Also, we are jointly and severally liable to the Pension Benefit Guaranty Corporation ("PBGC") for certain Ford IRS-qualified U.S. defined benefit pension plan liabilities and to any trustee appointed if one or more of these pension plans were to be terminated by the PBGC in a distress termination. We are liable to pay any plan deficiencies and could have a lien placed on our assets by the PBGC to collateralize this liability.

Retirement plan service costs allocated to Ford Credit for our employees in the U.S. participating in the Ford-sponsored plans were \$28 million, \$26 million and \$21 million for the years ended December 31, 2012, 2011 and 2010, respectively, and were charged to *Operating expenses*. The allocated cost for 2012 was equivalent to 10% of Ford's total U.S. salaried retirement plan service cost.

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 primarily in the United States. 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.

Effective January 1, 2012, Ford allocates costs to us for postretirement health care and life insurance on a service cost basis which is consistent with the basis used for allocating U.S. employee retirement plan service costs. Prior to 2012, postretirement health care and life insurance costs were allocated to us on a total plan cost basis. In addition, our liability to Ford for postretirement health care and life insurance of \$328 million at December 31, 2011, which was included in *Accounts payables - affiliated companies*, was paid in full during 2012.

Postretirement health care and life insurance assigned to Ford Credit for our employees in the U.S. participating in the Ford-sponsored plans increased *Operating expenses* by \$4 million for the year ended December 31, 2012 and reduced *Operating expenses* by \$22 million and \$21 million for the years ended December 31, 2011 and 2010, respectively. The allocation for 2012 was equivalent to 12% of Ford's total U.S. salaried postretirement health care and life insurance benefits service cost.

Stock Options

Certain of our employees have been granted stock options, which generally have a vesting feature whereby one-third of each grant of stock options are exercisable after the first anniversary of the grant date, one-third after the second anniversary, and one-third after the third anniversary. Stock options expire 10 years from the grant date using a three-year graded vesting methodology. Ford measures the fair value of stock options using the Black-Scholes option-pricing model.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 16. RETIREMENT BENEFITS AND SHARE-BASED COMPENSATION (*Continued*)

Employee stock option expense allocated to Ford Credit for our employees participating in the Ford-sponsored plans was \$2 million for the years ended December 31, 2012, 2011 and 2010, and were charged to *Operating expenses*. The allocated expense for 2012 was equivalent to 4% of Ford's total stock option expense.

Restricted Stock Units

Certain of our employees have been granted performance-based and time-based RSUs, which provide the recipients with the right to shares of stock after a restriction period. Ford measures the fair value using the closing price of Ford's Common Stock on grant date.

Time-based RSUs generally have a graded vesting feature whereby one-third of each grant of RSUs vest after the first anniversary of the grant date, one-third after the second anniversary, and one-third after the third anniversary. Ford's expense is recognized using the graded vesting method and is based on the fair value at grant date.

Performance-based RSUs have a performance period (usually one year) followed by a restriction period (usually two years). Ford recognizes compensation expense when it is probable and estimable as measured against the performance metrics. Expense is recognized over the performance and restriction periods, if any, and is based on the fair value at grant date.

RSU expense allocated to Ford Credit for our employees participating in these plans was \$5 million, \$6 million and \$10 million for the years ended December 31, 2012, 2011 and 2010, respectively, and were charged to *Operating expenses*. The allocated expense for 2012 was equivalent to 5% of Ford's total RSU expense.

NOTE 17. DIVESTITURES AND OTHER ACTIONS

We classify assets and liabilities as held for sale ("disposal group") when management, having the authority to approve the action, commits to a plan to sell the disposal group, the sale is probable within one year, and the disposal group is available for immediate sale in its present condition. We also consider whether an active program to locate a buyer has been initiated, whether the disposal group is marketed actively for sale at a price that is reasonable in relation to its current fair value, and whether actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. We classify a disposal group as a discontinued operation when the criteria to be classified as held for sale have been met and we will not have any significant involvement with the disposal group after the sale.

When we classify a disposal group as held for sale, we test for impairment. An impairment charge is recognized when the carrying value of the disposal group exceeds the estimated fair value less transaction costs.

We aggregate the assets and liabilities of all held-for-sale disposal groups on the balance sheet for the period in which the disposal group is held for sale. At December 31, 2012 and 2011, there were no assets and liabilities of held-for-sale disposal groups.

International Segment

In 2011, we recorded foreign currency translation adjustments of \$60 million (including \$72 million recorded in the fourth quarter of 2011) related to the strategic decision to exit retail and wholesale financing in certain Asia Pacific markets. These adjustments decreased *Accumulated other comprehensive income* (foreign currency translation) and increased our pre-tax income, which was recorded to *Other income, net*. See Notes 12 and 14 for additional information.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 18. FAIR VALUE MEASUREMENTS

Cash equivalents, marketable securities, and derivative financial instruments are presented in our financial statements on a recurring basis at fair value, while other assets and liabilities are measured at fair value on a nonrecurring basis such as when we have an asset impairment.

Fair Value Measurements

In measuring fair value, we use various valuation methodologies 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 assessment.

- 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

We review the inputs to the fair value measurements to ensure they are appropriately categorized within the fair value hierarchy. Transfers into and transfers out of the hierarchy levels are recognized as if they had taken place at the end of the reporting period.

Valuation Methodologies

Cash and Cash Equivalents. Included in *Cash and cash equivalents* are highly liquid investments that are readily convertible to known amounts of cash, and which 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 90 days 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 and are excluded from the tables below.

Marketable Securities. Investments in securities with a maturity date greater than 90 days at the date of purchase and other securities for which there is a more than an insignificant risk of change in value due to interest rate, quoted price, or penalty on withdrawal are classified as *Marketable securities*. We generally measure fair value using prices obtained from pricing services. Pricing methodologies 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 to determine fair value. In certain cases, when market data are not available, we may use broker quotes to determine fair value.

A 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.

Derivative Financial Instruments. 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 non-performance risk. The adjustment reflects the full credit default swap ("CDS") spread applied to a net exposure, by counterparty, considering the master netting agreements. 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.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 18. FAIR VALUE MEASUREMENTS (Continued)

Our two FUEL securitization transactions had derivative features which included a mandatory exchange to our unsecured notes when our senior unsecured debt received two investment grade credit ratings among Fitch, Moody's, and S&P, and a make-whole provision. We estimated the fair value of these features by comparing the fair value of the FUEL notes to the value of a hypothetical debt instrument without these features.

In the second quarter of 2012, we received two investment grade credit ratings thereby triggering the mandatory exchange feature and the FUEL derivatives were extinguished.

Retained Interests in Securitized Assets. We estimate the fair value of retained interests based on an income approach using internal valuation models. These models project future cash flows of the monthly collections on the sold finance receivables in excess of amounts needed for payment of the debt and other obligations issued or arising in the securitization transactions. The projected cash flows are discounted to a present value based on market inputs and our own assumptions regarding credit losses, pre-payment speed and the discount rate.

Finance Receivables. We measure finance receivables at fair value for purposes of disclosure using internal valuation models (see Note 3). 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, when retail contracts are greater than 120 days past due or deemed to be uncollectible, or if individual dealer loans are probable of foreclosure, we use the fair value of collateral, adjusted for estimated costs to sell, to determine the fair value adjustment to our receivables. The collateral for retail receivables is the vehicle financed, and for dealer loans is real estate or other property.

The fair value measurements for retail receivables are based on the number of contracts multiplied by the loss severity and the probability of default ("POD") percentage, or the outstanding receivable balances multiplied by the average recovery value ("ARV") percentage to determine the fair value adjustment.

The fair value measurements for dealer loans are based on an assessment of the estimated fair value of collateral. The assessment is performed 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. The fair value adjustment is determined by comparing the net carrying value of the dealer loan and the estimated fair value of collateral.

Debt. We measure debt at fair value for purposes of disclosure (see Note 10) using quoted prices for our own debt with approximately the same remaining maturities, where possible. Where quoted prices are not available, we estimate fair value using discounted cash flows and market-based expectations for interest rates, credit risk, and the contractual terms of the debt instruments. For certain short-term debt with an original maturity date of one year or less, we assume that book value is a reasonable approximation of debt's fair value. The fair value of debt is categorized within Level 2 of the hierarchy.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 18. FAIR VALUE MEASUREMENTS (Continued)

Input Hierarchy of Items Measured at Fair Value on a Recurring Basis

The following table categorizes the fair values of items measured at fair value on a recurring basis on our balance sheet (in millions):

	December 31, 2012				December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents-financial instruments								
U.S. government	\$ 200	\$ —	\$ —	\$ 200	\$ 1	\$ —	\$ —	\$ 1
U.S. government-sponsored enterprises	—	20	—	20	—	75	—	75
Non-U.S. government agencies (a)	—	—	—	—	—	150	—	150
Corporate debt	—	1	—	1	—	—	—	—
Non-U.S. government	—	103	—	103	—	15	—	15
Total cash equivalents-financial instruments(b)	200	124	—	324	1	240	—	241
Marketable securities								
U.S. government	620	—	—	620	619	—	—	619
U.S. government-sponsored enterprises	—	12	—	12	—	713	—	713
Non-U.S. government agencies (a)	—	95	—	95	—	778	—	778
Corporate debt	—	1,155	—	1,155	—	1,186	—	1,186
Mortgage-backed and other asset-backed	—	67	—	67	—	88	—	88
Non-U.S. government	—	142	—	142	—	444	—	444
Other liquid investments (c)	—	15	—	15	—	7	—	7
Total marketable securities	620	1,486	—	2,106	619	3,216	—	3,835
Derivative financial instruments								
Interest rate contracts	—	1,247	—	1,247	—	1,163	—	1,163
Foreign currency exchange contracts	—	9	—	9	—	53	—	53
Cross-currency interest rate swap contracts	—	—	—	—	—	12	—	12
Other (d)	—	—	—	—	—	—	137	137
Total derivative financial instruments	—	1,256	—	1,256	—	1,228	137	1,365
Total assets at fair value	\$ 820	\$ 2,866	\$ —	\$ 3,686	\$ 620	\$ 4,684	\$ 137	\$ 5,441
Liabilities								
Derivative financial instruments								
Interest rate contracts	\$ —	\$ 256	\$ —	\$ 256	\$ —	\$ 237	\$ —	\$ 237
Foreign currency exchange contracts	—	27	—	27	—	37	—	37
Cross-currency interest rate swap contracts	—	117	—	117	—	12	—	12
Total derivative financial instruments	—	400	—	400	—	286	—	286
Total liabilities at fair value	\$ —	\$ 400	\$ —	\$ 400	\$ —	\$ 286	\$ —	\$ 286

(a) Includes notes issued by non-U.S. government agencies, as well as notes issued by supranational institutions.

(b) Excludes time deposits, certificates of deposit, and money market accounts reported at par value on our balance sheet totaling \$6.3 billion and \$5.7 billion at December 31, 2012 and 2011, respectively. In addition to these cash equivalents, we also had cash on hand totaling \$2.6 billion and \$2.8 billion at December 31, 2012 and 2011, respectively.

(c) Includes certificates of deposit and time deposits subject to changes in value.

(d) Represents derivative features included in the FUEL notes.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 18. FAIR VALUE MEASUREMENTS (Continued)

Reconciliation of Changes in Level 3 Balances

The following table summarizes the changes recorded through income in Level 3 items measured at fair value on a recurring basis and reported on our balance sheet for the years ended December 31 (in millions):

	2012			2011			2010			
	Marketable Securities	Derivative Financial Instruments, Net (a)	Total Level 3 Fair Value	Marketable Securities	Derivative Financial Instruments, Net (a)	Total Level 3 Fair Value	Marketable Securities	Derivative Financial Instruments, Net (a)	Retained Interest in Securitized Assets	Total Level 3 Fair Value
Beginning balance	\$ —	\$ 137	\$ 137	\$ 1	\$ (109)	\$ (108)	\$ 4	\$ (168)	\$ 26	\$ (138)
Realized/unrealized gains/(losses)										
Other income, net	—	(81)	(81)	—	366	366	(4)	(108)	(3)	(115)
Other comprehensive income/(loss) (b)	—	—	—	—	(1)	(1)	—	(5)	2	(3)
Interest income/(expense) (c)	—	—	—	—	90	90	—	—	—	—
Total realized/unrealized gains/(losses)	—	(81)	(81)	—	455	455	(4)	(113)	(1)	(118)
Purchases, issues, sales, and settlements										
Purchases	—	—	—	5	—	5	11	—	—	11
Issues (d)	—	—	—	—	73	73	—	—	—	—
Sales	—	—	—	—	—	—	—	—	—	—
Settlements (e)	—	(56)	(56)	—	120	120	—	172	(25)	147
Total purchases, issues, sales, and settlements	—	(56)	(56)	5	193	198	11	172	(25)	158
Transfers into Level 3	—	—	—	—	—	—	—	—	—	—
Transfers out of Level 3 (f)	—	—	—	(6)	(402)	(408)	(10)	—	—	(10)
Ending balance	\$ —	\$ —	\$ —	\$ —	\$ 137	\$ 137	\$ 1	\$ (109)	\$ —	\$ (108)
Unrealized gains/(losses) on instruments still held	\$ —	\$ —	\$ —	\$ —	\$ 65	\$ 65	\$ —	\$ 56	\$ —	\$ 56

(a) See Note 8 for detail on financial statement presentation by hedge designation.

(b) Represents foreign currency translation on derivative asset and liability balances held by non-U.S. dollar foreign affiliates.

(c) Recorded in *Interest expense*.

(d) Represents derivative features included in the FUEL notes.

(e) Reflects exchange of the FUEL notes to unsecured notes.

(f) The transfer out of Level 3 of \$402 million in 2011 was primarily the result of management's validation of the observable data and determination that certain unobservable inputs had an insignificant impact on the valuation of these instruments. The remaining transfers were due to the increase in availability of observable data.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 18. FAIR VALUE MEASUREMENTS (Continued)

Input Hierarchy of Items Measured at Fair Value on a Nonrecurring Basis

The following table summarizes the items measured at fair value subsequent to initial recognition on a nonrecurring basis by input hierarchy that were still held on our balance sheet (in millions):

	December 31, 2012				December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
North America								
Retail receivables	\$ —	\$ —	\$ 52	\$ 52	\$ —	\$ —	\$ 70	\$ 70
Dealer loans	—	—	2	2	—	—	6	6
Total North America	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 54</u>	<u>\$ 54</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 76</u>	<u>\$ 76</u>
International								
Retail receivables	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 26</u>	<u>\$ 26</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 39</u>	<u>\$ 39</u>

Nonrecurring Fair Value Changes

The following table summarizes the total change in value of items for which a nonrecurring fair value adjustment has been included in our income statement for the years ended December 31, related to items still held on our balance sheet at those dates (in millions):

	Total Gains/(Losses)		
	2012	2011	2010
North America			
Retail receivables	\$ (13)	\$ (23)	\$ (29)
Dealer loans	(1)	—	(3)
Total North America	<u>\$ (14)</u>	<u>\$ (23)</u>	<u>\$ (32)</u>
International			
Retail receivables	<u>\$ (11)</u>	<u>\$ (14)</u>	<u>\$ (25)</u>

Fair value changes related to retail and dealer loan finance receivables that have been written down based on the fair value of collateral adjusted for estimated costs to sell are recorded in *Provision for credit losses*.

Information About Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

The following table summarizes significant unobservable inputs and the variability of those inputs to alternate methodologies for the year ended December 31, 2012 (in millions):

	Fair Value	Valuation Technique	Unobservable Input	Fair Value Range
Nonrecurring basis				
Retail receivables				
North America	\$52	Income Approach	POD percentage	\$38 - \$52
International	\$26	Income Approach	ARV percentage	\$25 - \$27
Dealer loans	\$2	Income Approach	Estimated fair value	\$1 - \$3

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 19. TRANSACTIONS WITH AFFILIATED COMPANIES

Transactions with Ford and affiliated companies occur in the ordinary course of business.

Income Statement

The income statement effects of transactions with Ford and affiliated companies for the years ended December 31 were as follows (reductions to *Income before income taxes* are presented as negative amounts) (in millions):

	2012	2011	2010
Net financing margin			
Interest supplements and other support costs earned	\$ 2,401	\$ 2,800	\$ 3,226
Operating lease revenue on employee leased vehicles	217	211	230
Residual value support (a)	70	152	339
Interest expense on debt	(25)	(36)	(27)
Interest income on notes receivables	22	27	48
Interest income on finance receivables (b)	30	36	6
Interest expense under tax sharing agreement (c)	(7)	(9)	(13)
Other revenue			
Earned insurance premiums	92	99	118
Earned insurance premiums ceded	(38)	(59)	(86)
Gains/(Losses) from derivative transactions (d)	(56)	2	(22)
Other income	11	12	13
Expenses			
Advice and services expense (e)	(92)	(107)	(105)
Insurance loss and loss adjustment expenses	(40)	(47)	(57)
Insurance loss and loss adjustment expenses recovered	19	31	45
Retirement benefits and share-based compensation (f)	(39)	(12)	(12)

- (a) These amounts are primarily included in *Depreciation on vehicles subject to operating leases*.
- (b) Certain entities are reported as consolidated subsidiaries of Ford; revenue from providing financing to these entities is included in *Financing revenue*.
- (c) Under our intercompany tax sharing agreement with Ford, we earn interest on net tax assets and pay interest on certain tax liabilities. Interest expense due to Ford under this agreement is included in *Interest expense*. We did not earn any interest for the periods presented.
- (d) Currency revaluation gains/(losses) primarily related to foreign denominated debt were mostly offset by gains/(losses) on derivatives. See Notes 8 and 14 for additional information.
- (e) We receive technical and administrative advice and services from Ford and its affiliates, occupy office space furnished by Ford and its affiliates, utilize data processing facilities maintained by Ford and sell returned lease and repossessed vehicles sold through Ford auction lots. These costs are charged to *Operating expenses*.
- (f) In the U.S., we are a participating employer in certain retirement, postretirement health care and life insurance and share-based compensation plans that are sponsored by Ford. Ford allocates costs to us based on the total number of participating or eligible employees at Ford Credit. See Note 16 for additional information.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 19. TRANSACTIONS WITH AFFILIATED COMPANIES (Continued)

Balance Sheet

The balance sheet effects of transactions with Ford and affiliated companies were as follows (in millions):

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Assets		
Net finance receivables and investment in operating leases		
Purchased receivables (a)	\$ 4,779	\$ 3,709
Unearned interest supplements on finance receivables (b)	(1,486)	(1,643)
Finance receivables (c)	816	653
Net investment in leased vehicles (d)	543	413
Notes and accounts receivables	1,173	1,152
Derivative financial instruments	5	53
Other assets		
Vehicles held for resale	5	15
Investment in non-consolidated affiliates	140	141
Liabilities		
Accounts payable (e)	(234)	(773)
Income taxes payable (f)	(549)	(660)
Debt (g)	(372)	(605)
Derivative financial instruments	(27)	(35)
Unearned interest supplements and residual support on operating leases (b)	(1,147)	(962)

- (a) We purchase certain receivables generated by divisions and affiliates of Ford, primarily in connection with the delivery of vehicle inventories from Ford, the sale of parts and accessories by Ford to dealers, and the purchase of other receivables generated by Ford. At December 31, 2012, \$771 million of these assets are subject to limited guarantees by Ford. In addition, at December 31, 2012, Ford guaranteed \$68 million of our finance receivables related to dealers.
- (b) Represents unearned interest supplements on finance receivables and operating leases and residual support payments for operating leases received from Ford. For contracts purchased prior to January 1, 2008, in the U.S. and Canada, Ford has pre-paid all of the interest supplement obligations during 2012 compared with \$47 million of interest supplements which remained unpaid as of December 31, 2011. Unearned interest supplements relating to these contracts are now included in the December 31, 2012 ending balance.
- (c) Represents other receivables related to certain used vehicles from daily rental fleet companies where we are serving as Ford's agent and wholesale receivables with entities that are reported as consolidated subsidiaries of Ford. Consolidated subsidiaries include dealerships that are partially owned by Ford as consolidated VIEs and also certain overseas affiliates.
- (d) We have entered into a sale-leaseback agreement with Ford primarily for vehicles that Ford leases to employees of Ford and its subsidiaries. The investment in these vehicles is included in *Net investment in operating leases* and is guaranteed by Ford.
- (e) Includes postretirement health care and life insurance benefits due to Ford of \$328 million at December 31, 2011. This was paid in full to Ford during 2012. See Note 16 for additional information.
- (f) In accordance with our intercompany tax sharing agreement with Ford, the 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. The income tax payable to Ford, recorded in *Other liabilities and deferred income*, does not include amounts recorded as *Deferred income taxes*. Refer to Note 11 for additional information. During 2012 and 2011, we paid Ford \$99 million and \$1.4 billion, respectively, related to the agreement.
- (g) Includes \$0 million and \$466 million at December 31, 2012 and 2011, respectively, for cash from Blue Oval Holdings, a Ford U.K. subsidiary, to collateralize guarantees from FCE for Ford in Romania. See Note 22 for further information.

Commitments and Contingencies

We provide various guarantees to third parties on behalf of Ford. At December 31, 2012, the value of these guarantees totaled \$78 million; Ford counter-guaranteed \$70 million of these items. See Note 22 for information regarding guarantees of certain obligations of unconsolidated and other affiliates.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 20. 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 divide our business segments based on geographic regions: the North America Segment (includes operations in the United States and Canada) and the International Segment (includes operations in all other countries).

We measure the performance of our segments primarily on an income before income taxes basis, after excluding the impact to earnings from gains and losses related to market valuation adjustments to derivatives primarily related to movements in interest rates. These adjustments are included in Unallocated Risk Management and are excluded in assessing our North America and International segment performance, because our risk management activities are carried out on a centralized basis at the corporate level, with only certain elements allocated to these segments. We also adjust segment performance to re-allocate interest expense between the North America and International segments reflecting debt and equity levels proportionate to their product risk. The North America and International segments are presented on a managed basis. Managed basis includes *Finance receivables, net* and *Net investment in operating leases* on our balance sheet, and excludes unearned interest supplements related to finance receivables.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 20. 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):

	Unallocated/Eliminations						Total
	North America Segment	International Segment	Unallocated Risk Management	Effect of Sales of Receivables	Effect of Unearned Interest Supplements	Total Unallocated/Eliminations	
2012							
Total revenue (a)(b)	\$ 6,583	\$ 1,799	\$ (109)	\$ —	\$ —	\$ (109)	\$ 8,273
Income before income taxes (b)	1,550	249	(102)	—	—	(102)	1,697
Other disclosures							
Depreciation on vehicles subject to operating leases	2,117	351	—	—	—	—	2,468
Interest expense	2,222	812	(7)	—	—	(7)	3,027
Provision for credit losses	18	(11)	—	—	—	—	7
Net finance receivables and net investment in operating leases (b)	74,143	17,107	—	—	(1,486)	(1,486)	89,764
Total assets (b)	84,112	23,118	—	—	(1,486)	(1,486)	105,744
2011							
Total revenue (a)	\$ 6,676	\$ 2,182	\$ (135)	\$ —	\$ —	\$ (135)	\$ 8,723
Income before income taxes	2,159	371	(126)	—	—	(126)	2,404
Other disclosures							
Depreciation on vehicles subject to operating leases	1,490	284	—	—	—	—	1,774
Interest expense	2,408	1,108	(9)	—	—	(9)	3,507
Provision for credit losses	(119)	1	—	—	—	—	(118)
Net finance receivables and net investment in operating leases	66,295	18,353	—	—	(1,643)	(1,643)	83,005
Total assets	77,666	24,219	—	—	(1,643)	(1,643)	100,242
2010							
Total revenue (a)	\$ 8,125	\$ 2,117	\$ (85)	\$ (10)	\$ —	\$ (95)	\$ 10,147
Income before income taxes	2,785	354	(85)	—	—	(85)	3,054
Other disclosures							
Depreciation on vehicles subject to operating leases	1,784	161	—	—	—	—	1,945
Interest expense	3,054	1,169	—	(1)	—	(1)	4,222
Provision for credit losses	(287)	18	—	—	—	—	(269)
Net finance receivables and net investment in operating leases	63,332	19,807	—	—	(1,881)	(1,881)	81,258
Total assets	77,835	25,742	—	—	(1,881)	(1,881)	101,696

(a) Represents *Total financing revenue*, *Insurance premiums earned*, and *Other income, net*.

(b) In the second quarter of 2012, we recorded a \$37 million unfavorable cumulative pre-tax accounting adjustment to correct the amortization of interest supplements for certain International retail finance contracts, which decreased *Interest supplements and other support costs earned from affiliated companies* and decreased *Finance receivables, net*. The impact of the accounting adjustment on our previously issued annual and interim financial statements was not material.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 20. SEGMENT AND GEOGRAPHIC INFORMATION (Continued)

Geographic Information

Key information related to our geographic operations in the United States, Canada, Europe, and other foreign operations were as follows for the years ended or at December 31 (in millions):

	2012	2011	2010
Total revenue (a)			
United States	\$ 5,597	\$ 5,373	\$ 6,377
Canada	952	1,168	1,671
Europe	1,373	1,671	1,681
All other	351	511	418
Total revenue	<u>\$ 8,273</u>	<u>\$ 8,723</u>	<u>\$ 10,147</u>
Income before income taxes			
United States	\$ 1,238	\$ 1,572	\$ 2,230
Canada	176	296	296
Europe	145	278	353
All other	138	258	175
Total income before income taxes	<u>\$ 1,697</u>	<u>\$ 2,404</u>	<u>\$ 3,054</u>
Finance receivables, net and net investment in operating leases			
United States	\$ 63,302	\$ 56,282	\$ 52,667
Canada	9,577	8,605	9,085
Europe	14,400	15,583	17,049
All other	2,485	2,535	2,457
Total finance receivables, net and net investment in operating leases	<u>\$ 89,764</u>	<u>\$ 83,005</u>	<u>\$ 81,258</u>

(a) Represents *Total financing revenue*, *Insurance premiums earned*, and *Other income, net*.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 21. 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
2012					
Total revenue (a)	\$ 2,067	\$ 2,020	\$ 2,069	\$ 2,117	\$ 8,273
Depreciation on vehicles subject to operating leases	(585)	(583)	(640)	(660)	(2,468)
Interest expense	(803)	(774)	(741)	(709)	(3,027)
Total financing margin and other revenue	679	663	688	748	2,778
Provision for credit losses	(24)	(51)	42	40	7
Net income	295	296	355	268	1,214
2011					
Total revenue (a)	\$ 2,227	\$ 2,153	\$ 2,206	\$ 2,137	\$ 8,723
Depreciation on vehicles subject to operating leases	(411)	(361)	(464)	(538)	(1,774)
Interest expense	(893)	(895)	(888)	(831)	(3,507)
Total financing margin and other revenue	923	897	854	768	3,442
Provision for credit losses	(64)	(25)	(20)	(9)	(118)
Net income	451	383	350	611	1,795

(a) Represents *Total financing revenue, Insurance premiums earned, and Other income, net.*

NOTE 22. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies consist primarily 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, 2012 were as follows (in millions):

	2013	2014	2015	2016	2017	Thereafter
Minimum rentals on operating leases	\$ 14	\$ 11	\$ 7	\$ 6	\$ 5	\$ 8

Rental expense under cancelable and non-cancelable leases of \$27 million, \$32 million and \$32 million was recorded in *Operating expenses* for the years ended December 31, 2012, 2011 and 2010, respectively.

Guarantees and Indemnifications

Guarantees are recorded at fair value at the inception of the guarantee. The carrying value of recorded liabilities related to guarantees was de minimis at December 31, 2012 and 2011. The following guarantees and indemnifications were issued and outstanding at December 31, 2012 and 2011:

Guarantees of Certain Obligations of Unconsolidated and Other Affiliates. In some cases, we have guaranteed debt and other financial obligations of unconsolidated affiliates, including Ford. Expiration dates vary, and guarantees will terminate on payment and/or cancellation of the 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 Ford or an affiliate of Ford 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. The maximum potential payments under these guarantees totaled \$78 million and \$81 million at December 31, 2012 and 2011, respectively. Of these values, \$70 million and \$71 million at December 31, 2012 and 2011, respectively, were counter-guaranteed by Ford to us.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 22. COMMITMENTS AND CONTINGENCIES (*Continued*)

At September 30, 2012, FCE had a \$285 million guarantee outstanding for obligations of Ford in Romania, which was partially collateralized with \$74 million of cash received from Blue Oval Holdings, a Ford U.K. subsidiary. The balance of the guarantee was counter-guaranteed by Ford. During the fourth quarter of 2012, the obligations of Ford in Romania were satisfied and as a result, FCE's guarantee was terminated with no payment required by FCE. Accordingly, FCE returned the cash collateral to Blue Oval Holdings and the counter-guarantee from Ford was terminated.

Indemnifications. 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; dealers 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. We also are party to numerous indemnifications which do not limit potential payment; therefore, we are unable to estimate a maximum amount of potential future payments that could result from claims made under these 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 relating to other matters; tax matters; alleged illegal acts; financial services; employment-related matters; dealers 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 treble damages in very large amounts, sanctions, assessments, fines, penalties, or other relief, which, if granted, would require very large expenditures.

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.

In evaluating for accrual and disclosure purposes matters filed against us, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood of our prevailing, 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 matters 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 to us and could require us to pay damages or make other expenditures in amounts or a range of amounts that cannot be estimated at December 31, 2012. We do not reasonably expect, based on our analysis, that such matters would have a material effect on future financial statements for a particular year, although such an outcome is possible.

As noted, the litigation process is subject to many uncertainties, and the outcome of individual litigated 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.

FORD MOTOR CREDIT COMPANY LLC AND SUBSIDIARIES
CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES
(in millions)

	2012	2011	2010	2009	2008
Earnings					
Income/(Loss) before income taxes	\$ 1,697	\$ 2,404	\$ 3,054	\$ 2,001	\$ (2,559)
Add/(Deduct):					
Equity in net income of affiliated companies	(33)	(21)	(12)	(1)	(8)
Dividends from affiliated companies	36	—	—	—	—
Fixed charges	3,036	3,518	4,233	5,174	7,648
Earnings	<u>\$ 4,736</u>	<u>\$ 5,901</u>	<u>\$ 7,275</u>	<u>\$ 7,174</u>	<u>\$ 5,081</u>
Fixed charges					
Interest expense	\$ 3,027	\$ 3,507	\$ 4,222	\$ 5,162	\$ 7,634
Interest portion of rental expense (a)	9	11	11	12	14
Total fixed charges	<u>\$ 3,036</u>	<u>\$ 3,518</u>	<u>\$ 4,233</u>	<u>\$ 5,174</u>	<u>\$ 7,648</u>
Ratio of earnings to fixed charges	1.56	1.68	1.72	1.39	(b)

(a) One-third of all rental expense is deemed to be interest.

(b) Earnings were inadequate to cover fixed interest charges by \$2,567 million.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Re: Ford Motor Credit Company LLC Registration Statement Nos. 333-180094 and 333-180342 on Form S-3

We hereby consent to the incorporation by reference in the aforementioned Registration Statements of Ford Motor Credit Company LLC and its Subsidiaries of our report dated February 18, 2013 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 18, 2013

FORD MOTOR CREDIT COMPANY LLC

Certificate of Secretary

The undersigned, Susan J. Thomas, 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 15, 2013, 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 18th day of February 2013.

/s/ Susan J. Thomas

Susan J. Thomas

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, 2012, 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 B.B. Silverstone, J.L. Carnarvon, K.M. Kjolhede, C.M. MacGillivray, M.L. Seneski, and S.J. Thomas, 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 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, 2012**

KNOW ALL MEN BY THESE PRESENTS that each person that is a director of FORD MOTOR CREDIT COMPANY LLC, does hereby constitute and appoint B. B. Silverstone, J. L. Carnarvon, K. M. Kjolhede, C. M. MacGillivray, M. L. Seneski, and S. J. Thomas, 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 Annual Report of FORD MOTOR CREDIT COMPANY LLC on Form 10-K for the year ended December 31, 2012 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 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 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 15th day of February, 2013.

/s/ Bernard B. Silverstone

B. B. Silverstone

/s/ N. Joy Falotico

N. J. Falotico

/s/ Todd S. Murphy

T. S. Murphy

/s/ Stuart J. Rowley

S. J. Rowley

/s/ Neil M. Schloss

N. M. Schloss

/s/ Thomas C. Schneider

T. C. Schneider

/s/ Michael L. Seneski

M. L. Seneski

/s/ Robert L. Shanks

R. L. Shanks

CERTIFICATION

I, Bernard B. Silverstone, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2012 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 18, 2013

/s/ Bernard B. Silverstone

Bernard B. Silverstone

Chairman of the Board and Chief Executive Officer

CERTIFICATION

I, Michael L. Seneski, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2012 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 18, 2013

/s/ Michael L. Seneski

Michael L. Seneski

Chief Financial Officer and Treasurer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Bernard B. Silverstone, Chairman of the Board and 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, 2012, 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 18, 2013

/s/ Bernard B. Silverstone

Bernard B. Silverstone

Chairman of the Board and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Michael L. Seneski, 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, 2012, 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 18, 2013

/s/ Michael L. Seneski

Michael L. Seneski

Chief Financial Officer and Treasurer