

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



**Form 8-K**

**Current Report**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): **September 27, 2013**

**Caterpillar Financial Services Corporation**  
(Exact name of Registrant as specified in its charter)

001-11241  
(Commission File Number)

Delaware  
(State or other jurisdiction of incorporation)

37-1105865  
(IRS Employer Identification Number)

2120 West End Avenue  
Nashville, Tennessee 37203-0001  
(Address of principal executive offices, with zip code)

(615) 341-1000  
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 8.01. Other Events.**

In connection with the upcoming renewal of Form S-3 covering the PowerInvestment Notes program, Caterpillar Financial Services Corporation (the “Company”, “we”, “our”) is filing this Current Report on Form 8-K in order to reflect certain revisions to the consolidated financial statements of the Company that were previously filed with the Securities and Exchange Commission (“SEC”) by the Company on February 19, 2013 in our Annual Report on Form 10-K for the year ended December 31, 2012 (the “2012 10-K”). The revisions address the items described below that were previously discussed in our Quarterly Reports on Form 10-Q for the quarters ended March 31 (the “First-Quarter 2013 10-Q”), and June 30, 2013 (the “Second-Quarter 2013 10-Q, together with the First-Quarter 2013 10-Q, the “First-Half 2013 10-Qs”) filed on May 2, and August 2, 2013, respectively. Prior year data for the years ended December 31, 2012, 2011 and 2010 have been revised to conform to the 2013 presentation.

As previously reported in the First-Half 2013 10-Qs, effective January 1, 2013, the Financial Accounting Standard Board issued guidance requiring disclosures about offsetting assets and liabilities. This guidance requires retrospective application and therefore we have updated our disclosures in Note 8 to Exhibit 99.1. The adoption of this guidance did not have a material impact on our financial statements. Additionally, as reported in the First-Half 2013 10-Qs, effective January 1, 2013, cash, debt and other expenses are now allocated to operating segments based on their respective portfolios and the performance of each segment is now assessed based on a consistent leverage ratio. Further, as disclosed in the First-Half 2013 10-Qs management reporting was updated to align with changes in executive management responsibilities (see Note 14 in Exhibit 99.1 to this Current Report on Form 8-K).

As discussed in the First-Half 2013 10-Qs, we have revised previously reported cash flows from operating and financing activities for the years ended December 31, 2012, 2011 and 2010 to correct the treatment of interest payments on certain bank borrowings. Management has concluded that the impact was not material to any quarterly or annual period. Additionally, as discussed in the Second-Quarter 2013 10-Q, we have also revised previously reported amounts for impaired loans and finance leases (See Notes 2 and 11 in Exhibit 99.1 to this Current Report on Form 8-K) and guarantees (see Note 9 in Exhibit 99.1 to this Current Report on Form 8-K). This Current Report does not reflect events occurring subsequent to the filing of the 2012 Form 10-K, and does not modify or update the disclosures therein in any way, other than as described above and set forth in Exhibit 99.1 attached hereto. The information in this Form 8-K, including the exhibits, should be read in conjunction with the 2012 Form 10-K and our subsequent filings with the SEC.

**Item 9.01. Financial Statements and Exhibits.**

(d) Exhibits. The following Exhibits are filed as part of this Report:

<b>Exhibit Number</b>	<b>Description</b>
23.1	Consent of Independent Registered Public Accounting Firm
99.1	General and Financial Information
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

## **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### **Caterpillar Financial Services Corporation**

Date: September 27, 2013

By: /s/ J. Wesley Blumenshine  
J. Wesley Blumenshine  
Secretary

EXHIBIT INDEX

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (Nos. 333-170652 and 333-173364) of Caterpillar Financial Services Corporation of our report dated February 19, 2013 except with respect to our opinion on the consolidated financial statements insofar as it relates to the change in reportable segments discussed in Note 14, the revisions discussed in Note 1, and disclosure of the offsetting of derivative assets and liabilities presented in Note 8, as to which the date is September 27, 2013, relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Current Report on Form 8-K dated September 27, 2013.

**/s/PricewaterhouseCoopers LLP**

Peoria, Illinois

September 27, 2013



## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholder of Caterpillar Financial Services Corporation:

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of profit, comprehensive income, changes in stockholder's equity and cash flows present fairly, in all material respects, the financial position of Caterpillar Financial Services Corporation and its subsidiaries (the "Company") at December 31, 2012, 2011 and 2010, 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 (not presented herein) appearing on page 34 of the Company's Annual Report on Form 10-K for the year ended December 31, 2012. 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**

Peoria, Illinois

February 19, 2013 except with respect to our opinion on the consolidated financial statements insofar as it relates to the change in reportable segments discussed in Note 14, the revisions discussed in Note 1, and disclosure of the offsetting of derivative assets and liabilities presented in Note 8, as to which the date is September 27, 2013

**Caterpillar Financial Services Corporation**  
**CONSOLIDATED STATEMENTS OF PROFIT**  
For the Years Ended December 31,  
(Dollars in Millions)

	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Revenues:</b>			
Retail finance	\$ 1,342	\$ 1,291	\$ 1,320
Operating lease	860	870	885
Wholesale finance	335	299	205
Other, net	156	185	142
Total revenues	<u>2,693</u>	<u>2,645</u>	<u>2,552</u>
<b>Expenses:</b>			
Interest	801	827	917
Depreciation on equipment leased to others	688	690	690
General, operating and administrative	416	405	351
Provision for credit losses	161	176	213
Other	29	34	54
Total expenses	<u>2,095</u>	<u>2,132</u>	<u>2,225</u>
Other income (expense)	<u>(7)</u>	<u>(9)</u>	<u>2</u>
<b>Profit before income taxes</b>	591	504	329
Provision for income taxes	<u>148</u>	<u>111</u>	<u>40</u>
<b>Profit of consolidated companies</b>	443	393	289
Less: Profit attributable to noncontrolling interests	<u>11</u>	<u>15</u>	<u>11</u>
<b>Profit<sup>1</sup></b>	<u>\$ 432</u>	<u>\$ 378</u>	<u>\$ 278</u>

<sup>1</sup> Profit attributable to Caterpillar Financial Services Corporation.

*See Notes to Consolidated Financial Statements.*



**Caterpillar Financial Services Corporation**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
For the Years Ended December 31,  
(Dollars in Millions)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Profit of consolidated companies	\$ 443	\$ 393	\$ 289
Other comprehensive income (loss), net of tax:			
Foreign currency translation, net of tax (expense)/benefit of: 2012-\$19; 2011-\$ \$(24); 2010-\$73)	62	(105)	(75)
Derivative financial instruments:			
Gains (losses) deferred, net of tax (expense)/benefit of: 2012-\$-; 2011-\$-; 2010-\$1	1	(1)	(6)
(Gains) losses reclassified to earnings, net of tax (expense)/benefit of: 2012-\$ \$1; 2011-\$3; 2010-\$16)	(3)	9	33
Total Other comprehensive income (loss), net of tax	<u>60</u>	<u>(97)</u>	<u>(48)</u>
<b>Comprehensive income (loss)</b>	503	296	241
Less: Comprehensive income attributable to the noncontrolling interests	<u>11</u>	<u>12</u>	<u>13</u>
<b>Comprehensive income (loss) attributable to Caterpillar Financial Services Corporation</b>	<u>\$ 492</u>	<u>\$ 284</u>	<u>\$ 228</u>

*See Notes to Consolidated Financial Statements.*

**Caterpillar Financial Services Corporation**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**At December 31,**  
**(Dollars in Millions, except share data)**

	2012	2011	2010
<b>Assets:</b>			
Cash and cash equivalents	\$ 2,080	\$ 1,176	\$ 1,676
Finance receivables (Note 2)			
Retail notes receivable	11,111	8,840	8,352
Wholesale notes receivable	4,238	4,368	2,783
Finance leases and installment sale contracts – Retail	13,589	12,436	12,481
Finance leases and installment sale contracts – Wholesale	643	425	459
	29,581	26,069	24,075
Less: Unearned income	(998)	(944)	(969)
Less: Allowance for credit losses	(426)	(369)	(363)
Total net finance receivables	28,157	24,756	22,743
Notes receivable from Caterpillar (Note 12)	360	327	278
Equipment on operating leases, less accumulated depreciation (Note 3)	2,959	2,611	2,711
Deferred and refundable income taxes (Note 10)	115	159	202
Other assets	1,071	1,083	1,142
<b>Total assets</b>	<b>\$ 34,742</b>	<b>\$ 30,112</b>	<b>\$ 28,752</b>
<b>Liabilities and stockholder's equity:</b>			
Payable to dealers and others	\$ 109	\$ 100	\$ 105
Payable to Caterpillar – other	85	67	54
Accrued expenses	267	292	303
Income taxes payable	70	60	90
Payable to Caterpillar – borrowings (Note 12)	208	—	600
Short-term borrowings (Note 6)	4,651	3,895	3,852
Current maturities of long-term debt (Note 7)	5,991	5,102	3,430
Long-term debt (Note 7)	19,086	16,529	15,932
Deferred income taxes and other liabilities (Note 10)	552	597	605
<b>Total liabilities</b>	<b>31,019</b>	<b>26,642</b>	<b>24,971</b>
Commitments and contingent liabilities (Note 9)			
Common stock - \$1 par value			
Authorized: 2,000 shares; Issued and outstanding: one share (at paid-in amount)	745	745	745
Additional paid-in capital	2	2	2
Retained earnings	2,694	2,512	2,734
Accumulated other comprehensive income/(loss)	176	116	217
Noncontrolling interests	106	95	83
<b>Total stockholder's equity</b>	<b>3,723</b>	<b>3,470</b>	<b>3,781</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 34,742</b>	<b>\$ 30,112</b>	<b>\$ 28,752</b>

See Notes to Consolidated Financial Statements.

**Caterpillar Financial Services Corporation**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY**  
For the Years Ended December 31,  
(Dollars in Millions)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income/(loss)	Noncontrolling interests	Total
<b>Balance at December 31, 2009</b>	\$ 745	\$ 2	\$ 3,062	\$ 264	\$ 70	\$ 4,143
Adjustment to adopt consolidation of variable-interest entities			(6)	3	—	(3)
<b>Balance at January 1, 2010</b>	\$ 745	\$ 2	\$ 3,056	\$ 267	\$ 70	\$ 4,140
Profit of consolidated companies			278		11	289
Dividend paid to Cat Inc.			(600)			(600)
Foreign currency translation, net of tax				(77)	2	(75)
Derivative financial instruments, net of tax				27		27
<b>Balance at December 31, 2010</b>	\$ 745	\$ 2	\$ 2,734	\$ 217	\$ 83	\$ 3,781
<b>Balance at December 31, 2010</b>	\$ 745	\$ 2	\$ 2,734	\$ 217	\$ 83	\$ 3,781
Profit of consolidated companies			378		15	393
Dividend paid to Cat Inc.			(600)			(600)
Foreign currency translation, net of tax				(109)	4	(105)
Change in ownership for noncontrolling interests					(7)	(7)
Derivative financial instruments, net of tax				8		8
<b>Balance at December 31, 2011</b>	\$ 745	\$ 2	\$ 2,512	\$ 116	\$ 95	\$ 3,470
<b>Balance at December 31, 2011</b>	\$ 745	\$ 2	\$ 2,512	\$ 116	\$ 95	\$ 3,470
Profit of consolidated companies			432		11	443
Dividend paid to Cat Inc.			(250)			(250)
Foreign currency translation, net of tax				62	—	62
Derivative financial instruments, net of tax				(2)		(2)
<b>Balance at December 31, 2012</b>	\$ 745	\$ 2	\$ 2,694	\$ 176	\$ 106	\$ 3,723

*See Notes to Consolidated Financial Statements.*

**Caterpillar Financial Services Corporation**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31,  
(Dollars in Millions)

	2012	2011	2010
<b>Cash flows from operating activities:</b>			
Profit of consolidated companies	\$ 443	\$ 393	\$ 289
Adjustments for non-cash items:			
Depreciation and amortization	707	710	715
Amortization of receivables purchase discount	(241)	(212)	(139)
Provision for credit losses	161	176	213
Gain on sales of receivables	(3)	(4)	—
Other, net	(4)	(66)	(189)
Changes in assets and liabilities:			
Receivables from others	(22)	16	44
Other receivables/payables with Caterpillar	15	(8)	20
Payable to dealers and others	(34)	2	(16)
Accrued interest payable	(13)	(17)	(26)
Accrued expenses and other liabilities, net	(15)	(49)	4
Income taxes payable	48	34	(80)
Payments on interest rate swaps	(4)	(2)	(1)
Net cash provided by operating activities	1,038	973	834
<b>Cash flows from investing activities:</b>			
Capital expenditures for equipment on operating leases and other capital expenditures	(1,660)	(1,190)	(959)
Proceeds from disposals of equipment	875	1,161	1,383
Additions to finance receivables	(18,754)	(17,058)	(11,807)
Collections of finance receivables	14,789	15,259	11,999
Net changes in Caterpillar purchased receivables	250	(1,164)	(590)
Proceeds from sales of receivables	144	207	16
Net change in variable lending to Caterpillar	(32)	55	(43)
Additions to other notes receivable with Caterpillar	(107)	(184)	(136)
Collections on other notes receivable with Caterpillar	103	77	1,005
Restricted cash and cash equivalents activity, net	45	27	74
Other, net	(4)	6	29
Net cash (used in) provided by investing activities	(4,351)	(2,804)	971
<b>Cash flows from financing activities:</b>			
Net change in variable lending from Caterpillar	203	—	(26)
Proceeds from borrowings with Caterpillar	—	—	600
Payments on borrowings with Caterpillar	—	(600)	—
Proceeds from debt issued (original maturities greater than three months)	13,806	10,873	8,108
Payments on debt issued (original maturities greater than three months)	(9,935)	(8,277)	(11,055)
Short-term borrowings, net (original maturities three months or less)	480	(97)	370
Dividend paid to Caterpillar	(250)	(600)	(600)
Acquisition of noncontrolling interest	—	(7)	—
Net cash provided by (used in) financing activities	4,304	1,292	(2,603)
Effect of exchange rate changes on cash and cash equivalents	(87)	39	(62)
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>904</b>	<b>(500)</b>	<b>(860)</b>
Cash and cash equivalents at beginning of period	1,176	1,676	2,536
Cash and cash equivalents at end of period	\$ 2,080	\$ 1,176	\$ 1,676
Cash paid for interest	\$ 797	\$ 823	\$ 917
Cash paid for taxes	\$ 101	\$ 96	\$ 72

Non-cash activity: On January 1, 2010, we adopted the provisions of the new consolidation of variable-interest entities accounting guidance, which resulted in the consolidation of qualifying special purpose entities related to our asset-backed securitization program which had previously been recorded off-balance sheet. Please refer to Note 2C.

All short-term investments, which consist primarily of highly liquid investments with original maturities of three months or less, are considered to be cash equivalents.

See Notes to Consolidated Financial Statements.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Nature of operations**

Caterpillar Financial Services Corporation, a Delaware corporation organized in 1981 (together with its subsidiaries, "Cat Financial," "the Company," "we" and "our"), is a wholly-owned finance subsidiary of Caterpillar Inc. (together with its other subsidiaries, "Caterpillar" or "Cat"). Our primary business is to provide retail and wholesale financing alternatives for Caterpillar products to customers and dealers around the world. Retail financing is primarily comprised of financing of Caterpillar equipment, machinery and engines. In addition, we also provide financing for vehicles, power generation facilities and marine vessels that, in most cases, incorporate Caterpillar products. We also provide wholesale financing to Caterpillar dealers and purchase short-term receivables from Caterpillar.

#### **B. Basis of consolidation**

The consolidated financial statements include the accounts of Cat Financial. Investments in companies that are owned 20 percent to 50 percent or are less than 20 percent owned and for which we have significant influence are accounted for by the equity method. Investments in companies that are less than 20 percent owned and for which we do not have significant influence are accounted for by the cost method. All material intercompany balances have been eliminated.

We consolidate all variable-interest entities (VIEs) where we are the primary beneficiary. For VIEs, we assess whether we are the primary beneficiary as prescribed by the accounting guidance on the consolidation of VIEs. The primary beneficiary of a VIE is the party that has the power to direct the activities that most significantly impact the performance of the entity and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the entity. We adopted the consolidation of variable-interest entities guidance issued in June 2009 effective January 1, 2010. Please refer to Note 9 for more information.

Certain amounts for prior periods have been reclassified to conform to the current period financial statement presentation. The investing activities on the Consolidated Statements of Cash Flows have additions and collections related to Caterpillar purchased receivables presented on a net basis. These receivables have short durations with a high turnover rate. The total cash flows for investing activities have not changed.

The Provision for income taxes for the year ended 2011 has been reduced by \$15 million for the cumulative correction of immaterial errors in deferred taxes related to prior periods. Based upon our evaluation of relevant factors related to this matter, we concluded that the uncorrected adjustments in our previously issued consolidated financial statements for any of the periods affected are immaterial and that the impact of recording the cumulative correction in 2011 was not material to our earnings for the full year ending December 31, 2011.

We have revised previously reported cash flows from operating and financing activities for the years ended December 31, 2012, 2011 and 2010 to correct the treatment of interest payments on certain bank borrowings. Cash provided by operating activities decreased from the amounts previously reported by \$57 million, \$53 million and \$50 million for the years ended December 31, 2012, 2011 and 2010 and cash provided by financing activities increased by the same amount. Management has concluded that the impact was not material to any quarterly or annual period.

In addition, we have revised previously reported amounts for impaired loans and finance leases (See Notes 2 and 11) and guarantees (See Note 9).

### **C. Recognition of earned income**

- Retail finance revenue on finance leases and installment sale contracts is recognized over the term of the contract at a constant rate of return on the scheduled outstanding principal balance. Revenue on retail notes is recognized based on the daily balance of retail receivables outstanding and the applicable effective interest rate.
- Operating lease revenue is recorded on a straight-line basis in the period earned over the life of the contract.
- Wholesale finance revenue on installment sale contracts and finance leases related to financing dealer inventory and rental fleets is recognized over the term of the contract at a constant rate of return on the scheduled outstanding principal balance. Revenue on wholesale notes is recognized based on the daily balance of wholesale receivables outstanding and the applicable effective interest rate.
- Loan origination and commitment fees are deferred and amortized to revenue using the interest method over the life of the finance receivables.

Recognition of income is suspended when management determines that collection of future income is not probable (generally after 120 days past due except in locations where local regulatory requirements dictate a different method, or instances in which relevant information is known that warrants placing the loan or finance lease on non-accrual status). Accrual is resumed, and previously suspended income is recognized, when the receivable becomes contractually current and/or collection doubts are removed. Cash receipts on impaired finance receivables are first recorded against the receivable and then to any unrecognized income. A finance receivable is considered impaired, based on current information and events, if it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan or finance lease. We consider a loan or finance lease past due if any portion of a contractual payment is due and unpaid for more than 30 days.

Revenues are presented net of sales and other related taxes.

### **D. Depreciation**

Depreciation for equipment on operating leases is recognized using the straight-line method over the lease term, typically one to seven years. The depreciable basis is the original cost of the equipment less the estimated residual value of the equipment at the end of the lease term.

### **E. Residual values**

The residuals for leases classified as operating leases are included in Equipment on operating leases. The residuals for leases classified as capital leases, in accordance with lease accounting, are included in finance leases and installment sale contracts.

During the term of the leases, residual amounts are monitored. If estimated market values reflect a non-temporary impairment due to economic factors, obsolescence or other adverse circumstances, the residuals are adjusted to the lower estimated values by a charge to earnings. For equipment on operating leases, the charge is recognized through depreciation expense. For finance leases, it is recognized through a reduction of finance revenue.

### **F. Debt issuance costs**

Debt issuance costs are capitalized and amortized to Interest expense over the contractual term of the debt issue.

### **G. Derivative financial instruments**

Our earnings and cash flows are subject to fluctuations due to changes in foreign currency exchange rates and interest rates. Our Risk Management Policy allows for the use of derivative financial instruments to prudently manage foreign currency exchange rate and interest rate exposures and not for the purpose of creating speculative positions. Derivatives that we use are primarily foreign currency forward and option contracts, cross currency contracts and interest rate swaps. All derivatives are recorded at fair value. See Note 8 for additional information.

### **H. Allowance for credit losses**

The Allowance for credit losses is evaluated on a regular basis and adjusted based upon management's best estimate of probable losses inherent in our finance receivables. Uncollectible receivable balances, including accrued interest, are written off against the Allowance for credit losses when the underlying collateral is repossessed or when we determine that it is probable that the receivable balance is uncollectible. Subsequent recoveries, if any, are credited to the Allowance for credit losses when received.

## **I. Income taxes**

The Provision for income taxes is determined using the asset and liability approach. Tax laws require items to be included in tax filings at different times than the items are reflected in the financial statements. A current liability is recognized for the estimated taxes payable for the current year. Deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. Deferred taxes are adjusted for enacted changes in tax rates and tax laws. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

When applicable, we combine certain of our income tax filings with those of Caterpillar. In such instances, we pay to or receive from Caterpillar our allocated share of income taxes or credits, in accordance with our tax sharing agreement with Caterpillar.

## **J. Foreign currency translation**

Assets and liabilities of foreign subsidiaries (the majority of which use the local currency as their functional currency) are translated at current exchange rates. The effects of translation adjustments are reported as a separate component of Accumulated other comprehensive income entitled "Foreign currency translation." Gains and losses resulting from the remeasurement of foreign currency amounts to functional currency are included in Other income (expense) on the Consolidated Statements of Profit.

## **K. Use of estimates in the preparation of financial statements**

The preparation of financial statements, in conformity with generally accepted accounting principles in the United States of America, requires management to make estimates and assumptions that affect the reported amounts. Significant estimates include the Allowance for credit losses, residual values for leased assets, income taxes and the assumptions used to determine the fair value of derivatives. Actual results may differ from these estimates.

## **L. New accounting pronouncements**

**Disclosures about the credit quality of financing receivables and the allowance for credit losses** – In July 2010, the Financial Accounting Standards Board (FASB) issued accounting guidance on disclosures about the credit quality of financing receivables and the allowance for credit losses. The guidance expands disclosures for the allowance for credit losses and financing receivables by requiring entities to disclose information at disaggregated levels. It also requires disclosure of credit quality indicators, past due information and modifications of financing receivables. Also, in April 2011, the FASB issued guidance clarifying when a restructuring of a receivable should be considered a troubled debt restructuring by providing additional guidance for determining whether the creditor has granted a concession and whether the debtor is experiencing financial difficulties. For end of period balances, the new disclosures were effective December 31, 2010 and did not have a material impact on our financial statements. For activity during a reporting period, the disclosures were effective January 1, 2011 and did not have a material impact on our financial statements. The disclosures related to modifications of financing receivables, as well as the guidance clarifying when a restructured receivable should be considered a troubled debt restructuring were effective July 1, 2011 and did not have a material impact on our financial statements. See Note 2B for additional information.

**Presentation of comprehensive income** – In June 2011, the FASB issued accounting guidance on the presentation of comprehensive income. The guidance provides two options for presenting net income and other comprehensive income. The total of comprehensive income, the components of net income, and the components of other comprehensive income may be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. We elected to present two separate statements. This guidance was effective January 1, 2012.

**Disclosures about offsetting assets and liabilities** – In December 2011, the FASB issued accounting guidance on disclosures about offsetting assets and liabilities. The guidance requires entities to disclose both gross and net information about instruments and transactions that are offset in the statement of financial position, as well as instruments and transactions that are subject to an enforceable master netting arrangement or similar agreement. In January 2013, the FASB issued guidance clarifying the scope of the disclosures to apply only to derivatives, including bifurcated embedded derivatives, repurchase and reverse repurchase agreements, and securities lending and securities borrowing transactions. This guidance was effective January 1, 2013, with retrospective application required. Accordingly, prior period disclosure has been added for comparison and is reported in Note 8. The adoption of this guidance did not have a material impact on our financial statements.

**Reporting of amounts reclassified out of accumulated other comprehensive income** – In February 2013, the FASB issued accounting guidance on the reporting of reclassifications out of accumulated other comprehensive income. The guidance requires an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income if the amount is reclassified to net income in its entirety in the same reporting period. For other amounts not required to be reclassified in their entirety to net income in the same reporting period, a cross reference to other disclosures that provide additional detail about the reclassification amounts is required. This guidance is effective January 1, 2013. We do not expect the adoption to have a material impact on our financial statements.

#### **M. Accumulated other comprehensive income/(loss)**

Comprehensive income/(loss) and its components are presented in the Consolidated Statements of Comprehensive Income. Accumulated other comprehensive income/(loss), net of tax, included in the Consolidated Statements of Changes in Stockholder's Equity, consisted of the following as of:

(Millions of dollars)	December 31,		
	2012	2011	2010
Foreign currency translation	\$ 184	\$ 122	\$ 231
Derivative financial instruments	(8)	(6)	(14)
Total Accumulated other comprehensive income/(loss)	<u>\$ 176</u>	<u>\$ 116</u>	<u>\$ 217</u>

#### **NOTE 2 – FINANCING ACTIVITIES**

##### **A. Contractual Maturities of Finance Receivables**

The contractual maturities and future scheduled payments of outstanding receivables, as of December 31, 2012, were:

(Millions of dollars)							
Amounts due in	Retail Installment Sale Contracts	Wholesale Installment Sale Contracts	Retail Finance Leases	Wholesale Finance Leases	Retail Notes	Wholesale Notes	Total
2013	\$ 1,931	\$ 286	\$ 3,239	\$ 103	\$ 4,069	\$ 3,873	\$ 13,501
2014	1,440	13	2,180	66	1,837	166	5,702
2015	961	8	1,252	48	1,715	180	4,164
2016	491	3	618	25	1,175	13	2,325
2017	183	—	249	6	1,454	6	1,898
Thereafter	31	—	125	—	861	—	1,017
	<u>5,037</u>	<u>310</u>	<u>7,663</u>	<u>248</u>	<u>11,111</u>	<u>4,238</u>	<u>28,607</u>
Guaranteed residual value	—	—	420	57	—	—	477
Unguaranteed residual value	—	—	469	28	—	—	497
Less: Unearned income	(74)	—	(772)	(25)	(87)	(40)	(998)
Total	<u>\$ 4,963</u>	<u>\$ 310</u>	<u>\$ 7,780</u>	<u>\$ 308</u>	<u>\$ 11,024</u>	<u>\$ 4,198</u>	<u>\$ 28,583</u>
Less: Allowance for credit losses							(426)
Total net finance receivables							<u>\$ 28,157</u>

Receivables generally may be repaid or refinanced without penalty prior to contractual maturity, and we also sell receivables. Accordingly, this presentation should not be regarded as a forecast of future cash collections.



## B. Credit Quality of Financing Receivables and Allowance for Credit Losses

We apply a systematic methodology to determine the Allowance for credit losses for finance receivables. Based upon our analysis of credit losses and risk factors, our portfolio segments are as follows:

- **Customer** - Finance receivables with retail customers.
- **Dealer** - Finance receivables with Caterpillar dealers.
- **Caterpillar Purchased Receivables** - Trade receivables purchased from Caterpillar entities.

We further evaluate our portfolio segments by the class of finance receivables, which is defined as a level of information (below a portfolio segment) in which the finance receivables have the same initial measurement attribute and a similar method for assessing and monitoring credit risk. Typically, our finance receivables within a geographic area have similar credit risk profiles and methods for assessing and monitoring credit risk. Our classes, which align with management reporting for credit losses, are as follows:

- **North America** - Finance receivables originated in the United States or Canada.
- **Europe** - Finance receivables originated in Europe, Africa, Middle East and the Commonwealth of Independent States.
- **Asia/Pacific** - Finance receivables originated in Australia, New Zealand, China, Japan, South Korea and Southeast Asia.
- **Mining** - Finance receivables related to large mining customers worldwide.
- **Latin America** - Finance receivables originated in Central and South American countries and Mexico.
- **Caterpillar Power Finance** - Finance receivables related to marine vessels with Caterpillar engines worldwide and Caterpillar electrical power generation, gas compression and co-generation systems and non-Caterpillar equipment that is powered by these systems worldwide.

### Impaired loans and finance leases

For all classes, a loan or finance lease is considered impaired, based on current information and events, if it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan or finance lease. Loans and finance leases reviewed for impairment include loans and finance leases that are past due, non-performing or in bankruptcy. Recognition of income is suspended and the loan or finance lease is placed on non-accrual status when management determines that collection of future income is not probable (generally after 120 days past due except in locations where local regulatory requirements dictate a different method, or instances in which relevant information is known that warrants placing the loan or finance lease on non-accrual status). Accrual is resumed, and previously suspended income is recognized, when the loan or finance lease becomes contractually current and/or collection doubts are removed. Cash receipts on impaired loans or finance leases are recorded against the receivable and then to any unrecognized income.

During the second quarter of 2013, we changed the classification of certain loans and finance leases previously reported as impaired. While these loans and finance leases had been incorrectly reported as impaired, the related allowance for these loans and finance leases was appropriately measured; therefore, this change had no impact on the Allowance for credit losses. The impact of incorrectly reporting these loans and finance leases as impaired was not considered material to previously issued financial statements; however, prior period impaired loan and finance lease balances reported in Notes 2 and 11 have been revised.

There were no impaired loans or finance leases as of December 31, 2012, 2011 and 2010, for the Dealer and Caterpillar Purchased Receivables portfolio segments. The average recorded investment for impaired loans and finance leases for the Caterpillar Purchased Receivables portfolio segment was zero during 2012, 2011 and 2010. The average recorded investment for impaired loans and finance leases for the Dealer portfolio segment was zero during 2012 and 2011 and \$6 million during 2010, all of which was in the Europe finance receivable class.

Individually impaired loans and finance leases for the Customer portfolio segment were as follows:

(Millions of dollars)						
Impaired Loans and Finance Leases With No Allowance Recorded	As of December 31, 2012			As of December 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment <sup>(1)</sup>	Unpaid Principal Balance <sup>(1)</sup>	Related Allowance
<b>Customer</b>						
North America	\$ 28	\$ 27	\$ —	\$ 83	\$ 80	\$ —
Europe	45	45	—	47	46	—
Asia/Pacific	2	2	—	4	4	—
Mining	1	1	—	8	8	—
Latin America	7	7	—	9	9	—
Caterpillar Power Finance	295	295	—	175	170	—
Total	<u>\$ 378</u>	<u>\$ 377</u>	<u>\$ —</u>	<u>\$ 326</u>	<u>\$ 317</u>	<u>\$ —</u>
<b>Impaired Loans and Finance Leases With An Allowance Recorded</b>						
<b>Customer</b>						
North America	\$ 25	\$ 23	\$ 7	\$ 23	\$ 20	\$ 6
Europe	28	26	11	22	21	8
Asia/Pacific	19	19	4	9	9	3
Mining	—	—	—	—	—	—
Latin America	30	30	8	19	19	4
Caterpillar Power Finance	113	109	24	85	85	13
Total	<u>\$ 215</u>	<u>\$ 207</u>	<u>\$ 54</u>	<u>\$ 158</u>	<u>\$ 154</u>	<u>\$ 34</u>
<b>Total Impaired Loans and Finance Leases</b>						
<b>Customer</b>						
North America	\$ 53	\$ 50	\$ 7	\$ 106	\$ 100	\$ 6
Europe	73	71	11	69	67	8
Asia/Pacific	21	21	4	13	13	3
Mining	1	1	—	8	8	—
Latin America	37	37	8	28	28	4
Caterpillar Power Finance	408	404	24	260	255	13
Total	<u>\$ 593</u>	<u>\$ 584</u>	<u>\$ 54</u>	<u>\$ 484</u>	<u>\$ 471</u>	<u>\$ 34</u>

<sup>(1)</sup> Amounts previously disclosed have been revised due to immaterial errors.

(Millions of dollars)

As of December 31, 2010

**Impaired Loans and Finance  
Leases With No Allowance  
Recorded**

**Customer**

	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>
North America	\$ 87	\$ 87	\$ —
Europe	6	4	—
Asia/Pacific	5	5	—
Mining	8	8	—
Latin America	3	3	—
Caterpillar Power Finance	174	174	—
<b>Total</b>	<b>\$ 283</b>	<b>\$ 281</b>	<b>\$ —</b>

**Impaired Loans and Finance  
Leases With An Allowance  
Recorded**

**Customer**

North America	\$ 53	\$ 51	\$ 16
Europe	26	22	6
Asia/Pacific	12	12	3
Mining	—	—	—
Latin America	10	10	2
Caterpillar Power Finance	12	12	2
<b>Total</b>	<b>\$ 113</b>	<b>\$ 107</b>	<b>\$ 29</b>

**Total Impaired Loans and  
Finance Leases**

**Customer**

North America	\$ 140	\$ 138	\$ 16
Europe	32	26	6
Asia/Pacific	17	17	3
Mining	8	8	—
Latin America	13	13	2
Caterpillar Power Finance	186	186	2
<b>Total</b>	<b>\$ 396</b>	<b>\$ 388</b>	<b>\$ 29</b>

(Millions of dollars)

	Year Ended December 31, 2012		Year Ended December 31, 2011		Year Ended December 31, 2010	
Impaired Loans and Finance Leases With No Allowance Recorded	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment <sup>(1)</sup>	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b>Customer</b>						
North America	\$ 50	\$ 3	\$ 91	\$ 4	\$ 39	\$ 2
Europe	45	1	11	—	7	—
Asia/Pacific	3	—	5	—	6	—
Mining	8	—	8	1	3	—
Latin America	6	—	9	1	5	—
Caterpillar Power Finance	220	2	221	6	92	—
<b>Total</b>	<b>\$ 332</b>	<b>\$ 6</b>	<b>\$ 345</b>	<b>\$ 12</b>	<b>\$ 152</b>	<b>\$ 2</b>

**Impaired Loans and Finance  
Leases With An Allowance  
Recorded**

<b>Customer</b>						
North America	\$ 25	\$ 1	\$ 56	\$ 2	\$ 66	\$ 3
Europe	27	1	20	—	21	1
Asia/Pacific	15	1	11	1	16	1
Mining	—	—	—	—	6	1
Latin America	27	2	11	—	5	—
Caterpillar Power Finance	94	—	61	—	6	—
<b>Total</b>	<b>\$ 188</b>	<b>\$ 5</b>	<b>\$ 159</b>	<b>\$ 3</b>	<b>\$ 120</b>	<b>\$ 6</b>

**Total Impaired Loans and  
Finance Leases**

<b>Customer</b>						
North America	\$ 75	\$ 4	\$ 147	\$ 6	\$ 105	\$ 5
Europe	72	2	31	—	28	1
Asia/Pacific	18	1	16	1	22	1
Mining	8	—	8	1	9	1
Latin America	33	2	20	1	10	—
Caterpillar Power Finance	314	2	282	6	98	—
<b>Total</b>	<b>\$ 520</b>	<b>\$ 11</b>	<b>\$ 504</b>	<b>\$ 15</b>	<b>\$ 272</b>	<b>\$ 8</b>

<sup>(1)</sup> Amounts previously disclosed have been revised due to immaterial errors.

**Non-accrual and past due loans and finance leases**

For all classes, we consider a loan or finance lease past due if any portion of a contractual payment is due and unpaid for more than 30 days. Recognition of income is suspended and the loan or finance lease is placed on non-accrual status when management determines that collection of future income is not probable (generally after 120 days past due except in locations where local regulatory requirements dictate a different method, or in instances in which relevant information is known that warrants placing the loan or finance lease on non-accrual status). Accrual is resumed, and previously suspended income is recognized, when the loan or finance lease becomes contractually current and/or collection doubts are removed.

As of December 31, 2012, 2011 and 2010, there were no loans or finance leases on non-accrual status for the Dealer or Caterpillar Purchased Receivables portfolio segments.

The investment in customer loans and finance leases on non-accrual status as of December 31, was as follows:

(Millions of dollars)			
	2012	2011	2010
<b>Customer</b>			
North America	\$ 59	\$ 112	\$ 217
Europe	38	58	89
Asia/Pacific	36	24	24
Mining	12	12	7
Latin America	148	108	139
Caterpillar Power Finance	220	158	163
Total	<u>\$ 513</u>	<u>\$ 472</u>	<u>\$ 639</u>

Aging related to loans and finance leases was as follows:

(Millions of dollars)								
	December 31, 2012							
	31-60 Days Past Due	61-90 Days Past Due	91+ Days Past Due	Total Past Due	Current	Total Finance Receivables	91+ Still Accruing	
<b>Customer</b>								
North America	\$ 35	\$ 8	\$ 52	\$ 95	\$ 5,889	\$ 5,984	\$ —	
Europe	23	9	36	68	2,487	2,555	6	
Asia/Pacific	53	19	54	126	3,354	3,480	18	
Mining	—	1	12	13	1,960	1,973	—	
Latin America	62	19	138	219	2,500	2,719	—	
Caterpillar Power Finance	15	14	126	155	3,017	3,172	4	
<b>Dealer</b>								
North America	—	—	—	—	2,931	2,931	—	
Europe	—	—	—	—	652	652	—	
Asia/Pacific	—	—	—	—	945	945	—	
Mining	—	—	—	—	1	1	—	
Latin America	—	—	—	—	1,057	1,057	—	
Caterpillar Power Finance	—	—	—	—	—	—	—	
<b>Caterpillar Purchased Receivables</b>								
North America	17	3	2	22	1,334	1,356	2	
Europe	1	—	—	1	331	332	—	
Asia/Pacific	—	—	—	—	868	868	—	
Mining	—	—	—	—	—	—	—	
Latin America	—	—	—	—	547	547	—	
Caterpillar Power Finance	—	—	1	1	10	11	1	
Total	<u>\$ 206</u>	<u>\$ 73</u>	<u>\$ 421</u>	<u>\$ 700</u>	<u>\$ 27,883</u>	<u>\$ 28,583</u>	<u>\$ 31</u>	

(Millions of dollars)

December 31, 2011

	31-60 Days Past Due	61-90 Days Past Due	91+ Days Past Due	Total Past Due	Current	Total Finance Receivables	91+ Still Accruing
<b>Customer</b>							
North America	\$ 75	\$ 39	\$ 111	\$ 225	\$ 5,448	\$ 5,673	\$ 9
Europe	27	11	57	95	2,129	2,224	10
Asia/Pacific	48	23	38	109	3,102	3,211	14
Mining	—	—	12	12	1,473	1,485	—
Latin America	32	15	99	146	2,339	2,485	—
Caterpillar Power Finance	14	16	125	155	2,765	2,920	25
<b>Dealer</b>							
North America	—	—	2	2	2,412	2,414	2
Europe	—	—	—	—	334	334	—
Asia/Pacific	—	—	—	—	516	516	—
Mining	—	—	—	—	—	—	—
Latin America	—	—	—	—	709	709	—
Caterpillar Power Finance	—	—	—	—	—	—	—
<b>Caterpillar Purchased Receivables</b>							
North America	25	4	6	35	1,801	1,836	6
Europe	3	—	—	3	399	402	—
Asia/Pacific	—	—	—	—	465	465	—
Mining	—	—	—	—	—	—	—
Latin America	—	—	—	—	422	422	—
Caterpillar Power Finance	—	—	—	—	29	29	—
Total	<u>\$ 224</u>	<u>\$ 108</u>	<u>\$ 450</u>	<u>\$ 782</u>	<u>\$ 24,343</u>	<u>\$ 25,125</u>	<u>\$ 66</u>

(Millions of dollars)

December 31, 2010

	<b>31-60 Days Past Due</b>	<b>61-90 Days Past Due</b>	<b>91+ Days Past Due</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total Finance Receivables</b>	<b>91+ Still Accruing</b>
<b><u>Customer</u></b>							
North America	\$ 139	\$ 44	\$ 228	\$ 411	\$ 6,037	\$ 6,448	\$ 27
Europe	27	12	106	145	2,365	2,510	26
Asia/Pacific	63	17	37	117	2,537	2,654	12
Mining	—	—	—	—	875	875	—
Latin America	44	16	144	204	2,222	2,426	1
Caterpillar Power Finance	18	17	54	89	2,978	3,067	25
<b><u>Dealer</u></b>							
North America	—	—	—	—	1,993	1,993	—
Europe	—	—	—	—	344	344	—
Asia/Pacific	—	—	—	—	296	296	—
Mining	—	—	—	—	—	—	—
Latin America	—	—	—	—	659	659	—
Caterpillar Power Finance	—	—	—	—	19	19	—
<b><u>Caterpillar Purchased Receivables</u></b>							
North America	3	1	1	5	1,285	1,290	1
Europe	1	—	—	1	109	110	—
Asia/Pacific	—	—	—	—	204	204	—
Mining	—	—	—	—	11	11	—
Latin America	—	—	—	—	173	173	—
Caterpillar Power Finance	3	—	—	3	24	27	—
Total	<u>\$ 298</u>	<u>\$ 107</u>	<u>\$ 570</u>	<u>\$ 975</u>	<u>\$ 22,131</u>	<u>\$ 23,106</u>	<u>\$ 92</u>

## Allowance for credit losses

In estimating the Allowance for credit losses, we review loans and finance leases that are past due, non-performing or in bankruptcy. An analysis of the Allowance for credit losses was as follows:

(Millions of dollars)				
December 31, 2012				
Allowance for Credit Losses:	Customer	Dealer	Caterpillar Purchased Receivables	Total
Balance at beginning of year	\$ 360	\$ 6	\$ 3	\$ 369
Receivables written off	(149)	—	—	(149)
Recoveries on receivables previously written off	47	—	—	47
Provision for credit losses	157	3	—	160
Adjustment due to sale of receivables	(2)	—	—	(2)
Foreign currency translation adjustment	1	—	—	1
Balance at end of year	<u>\$ 414</u>	<u>\$ 9</u>	<u>\$ 3</u>	<u>\$ 426</u>
Individually evaluated for impairment	\$ 54	\$ —	\$ —	\$ 54
Collectively evaluated for impairment	360	9	3	372
Ending Balance	<u>\$ 414</u>	<u>\$ 9</u>	<u>\$ 3</u>	<u>\$ 426</u>
<b>Recorded Investment in Finance Receivables:</b>				
Individually evaluated for impairment	\$ 593	\$ —	\$ —	\$ 593
Collectively evaluated for impairment	19,290	5,586	3,114	27,990
Ending Balance	<u>\$ 19,883</u>	<u>\$ 5,586</u>	<u>\$ 3,114</u>	<u>\$ 28,583</u>

(Millions of dollars)				
December 31, 2011				
Allowance for Credit Losses:	Customer	Dealer	Caterpillar Purchased Receivables	Total
Balance at beginning of year	\$ 357	\$ 5	\$ 1	\$ 363
Receivables written off	(210)	—	—	(210)
Recoveries on receivables previously written off	52	—	—	52
Provision for credit losses	167	1	2	170
Adjustment due to sale of receivables	(3)	—	—	(3)
Foreign currency translation adjustment	(3)	—	—	(3)
Balance at end of year	<u>\$ 360</u>	<u>\$ 6</u>	<u>\$ 3</u>	<u>\$ 369</u>
Individually evaluated for impairment	\$ 34	\$ —	\$ —	\$ 34
Collectively evaluated for impairment	326	6	3	335
Ending Balance	<u>\$ 360</u>	<u>\$ 6</u>	<u>\$ 3</u>	<u>\$ 369</u>
<b>Recorded Investment in Finance Receivables<sup>(1)</sup>:</b>				
Individually evaluated for impairment	\$ 484	\$ —	\$ —	\$ 484
Collectively evaluated for impairment	17,514	3,973	3,154	24,641
Ending Balance	<u>\$ 17,998</u>	<u>\$ 3,973</u>	<u>\$ 3,154</u>	<u>\$ 25,125</u>

<sup>(1)</sup> Amounts previously disclosed for the customer segment have been revised due to immaterial errors.



(Millions of dollars)

	December 31, 2010
<b>Allowance for Credit Losses:</b>	
Balance at beginning of year	\$ 377
Adjustment to adopt consolidation of variable-interest entities	18
Receivables written off	(288)
Recoveries on receivables previously written off	51
Provision for credit losses	205
Adjustment due to sale of receivables	—
Foreign currency translation adjustment	—
Balance at end of year	<u>\$ 363</u>
Allowance for credit losses as a percent of finance receivables, net of unearned income	1.57%

	December 31, 2010			
	Customer	Dealer	Caterpillar Purchased Receivables	Total
Individually evaluated for impairment	\$ 29	\$ —	\$ —	\$ 29
Collectively evaluated for impairment	328	5	1	334
Ending Balance	<u>\$ 357</u>	<u>\$ 5</u>	<u>\$ 1</u>	<u>\$ 363</u>
<b>Recorded Investment in Finance Receivables:</b>				
Individually evaluated for impairment	\$ 396	\$ —	\$ —	\$ 396
Collectively evaluated for impairment	17,584	3,311	1,815	22,710
Ending Balance	<u>\$ 17,980</u>	<u>\$ 3,311</u>	<u>\$ 1,815</u>	<u>\$ 23,106</u>

#### Credit quality of finance receivables

The credit quality of finance receivables is reviewed on a monthly basis. Credit quality indicators include performing and non-performing. Non-performing is defined as finance receivables currently over 120 days past due and/or on non-accrual status or in bankruptcy. Finance receivables not meeting the criteria listed above are considered performing. Non-performing receivables have the highest probability for credit loss. The Allowance for credit losses attributable to non-performing receivables is based on the most probable source of repayment, which is normally the liquidation of collateral. In determining collateral value, we estimate the current fair market value of the collateral. In addition, consideration is given to credit enhancements such as additional collateral and contractual third-party guarantees in determining the Allowance for credit losses attributable to non-performing receivables.

The recorded investment in performing and non-performing finance receivables was as follows:

(Millions of dollars)				
	December 31, 2012			
	Customer	Dealer	Caterpillar Purchased Receivables	Total
<b>Performing</b>				
North America	\$ 5,925	\$ 2,931	\$ 1,356	\$ 10,212
Europe	2,517	652	332	3,501
Asia/Pacific	3,444	945	868	5,257
Mining	1,961	1	—	1,962
Latin America	2,571	1,057	547	4,175
Caterpillar Power Finance	2,952	—	11	2,963
Total Performing	<u>\$ 19,370</u>	<u>\$ 5,586</u>	<u>\$ 3,114</u>	<u>\$ 28,070</u>
<b>Non-Performing</b>				
North America	\$ 59	\$ —	\$ —	\$ 59
Europe	38	—	—	38
Asia/Pacific	36	—	—	36
Mining	12	—	—	12
Latin America	148	—	—	148
Caterpillar Power Finance	220	—	—	220
Total Non-Performing	<u>\$ 513</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 513</u>
<b>Total Performing and Non-Performing</b>				
North America	\$ 5,984	\$ 2,931	\$ 1,356	\$ 10,271
Europe	2,555	652	332	3,539
Asia/Pacific	3,480	945	868	5,293
Mining	1,973	1	—	1,974
Latin America	2,719	1,057	547	4,323
Caterpillar Power Finance	3,172	—	11	3,183
Total	<u>\$ 19,883</u>	<u>\$ 5,586</u>	<u>\$ 3,114</u>	<u>\$ 28,583</u>

(Millions of dollars)

	December 31, 2011			
	Customer	Dealer	Caterpillar Purchased Receivables	Total
<b>Performing</b>				
North America	\$ 5,561	\$ 2,414	\$ 1,836	\$ 9,811
Europe	2,166	334	402	2,902
Asia/Pacific	3,187	516	465	4,168
Mining	1,473	—	—	1,473
Latin America	2,377	709	422	3,508
Caterpillar Power Finance	2,762	—	29	2,791
Total Performing	<u>\$ 17,526</u>	<u>\$ 3,973</u>	<u>\$ 3,154</u>	<u>\$ 24,653</u>
<b>Non-Performing</b>				
North America	\$ 112	\$ —	\$ —	\$ 112
Europe	58	—	—	58
Asia/Pacific	24	—	—	24
Mining	12	—	—	12
Latin America	108	—	—	108
Caterpillar Power Finance	158	—	—	158
Total Non-Performing	<u>\$ 472</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 472</u>
<b>Total Performing and Non-Performing</b>				
North America	\$ 5,673	\$ 2,414	\$ 1,836	\$ 9,923
Europe	2,224	334	402	2,960
Asia/Pacific	3,211	516	465	4,192
Mining	1,485	—	—	1,485
Latin America	2,485	709	422	3,616
Caterpillar Power Finance	2,920	—	29	2,949
Total	<u>\$ 17,998</u>	<u>\$ 3,973</u>	<u>\$ 3,154</u>	<u>\$ 25,125</u>

(Millions of dollars)

	December 31, 2010			
	Customer	Dealer	Caterpillar Purchased Receivables	Total
<b>Performing</b>				
North America	\$ 6,231	\$ 1,993	\$ 1,290	\$ 9,514
Europe	2,421	344	110	2,875
Asia/Pacific	2,630	296	204	3,130
Mining	868	—	11	879
Latin America	2,287	659	173	3,119
Caterpillar Power Finance	2,904	19	27	2,950
Total Performing	\$ 17,341	\$ 3,311	\$ 1,815	\$ 22,467
<b>Non-Performing</b>				
North America	\$ 217	\$ —	\$ —	\$ 217
Europe	89	—	—	89
Asia/Pacific	24	—	—	24
Mining	7	—	—	7
Latin America	139	—	—	139
Caterpillar Power Finance	163	—	—	163
Total Non-Performing	\$ 639	\$ —	\$ —	\$ 639
<b>Total Performing and Non-Performing</b>				
North America	\$ 6,448	\$ 1,993	\$ 1,290	\$ 9,731
Europe	2,510	344	110	2,964
Asia/Pacific	2,654	296	204	3,154
Mining	875	—	11	886
Latin America	2,426	659	173	3,258
Caterpillar Power Finance	3,067	19	27	3,113
Total	\$ 17,980	\$ 3,311	\$ 1,815	\$ 23,106

### Troubled Debt Restructurings

A restructuring of a loan or finance lease receivable constitutes a troubled debt restructuring (TDR) when the lender grants a concession it would not otherwise consider to a borrower experiencing financial difficulties. Concessions granted may include extended contract maturities, inclusion of interest only periods, below market interest rates, and extended skip payment periods.

TDRs are reviewed along with other receivables as part of management's ongoing evaluation of the adequacy of the Allowance for credit losses. The Allowance for credit losses attributable to TDRs is based on the most probable source of repayment, which is normally the liquidation of collateral. In determining collateral value, we estimate the current fair market value of the collateral. In addition, consideration is given to credit enhancements such as additional collateral and contractual third-party guarantees in determining the Allowance for credit losses attributable to TDRs.

There were no loans or finance lease receivables modified as TDRs during the years ended December 31, 2012 and 2011 for the Dealer or Caterpillar Purchased Receivables portfolio segments.

Loan and finance lease receivables in the customer portfolio segment modified as TDRs during the years ended December 31, 2012 and 2011, were as follows:

(Dollars in millions)

	Year Ended December 31, 2012			Year Ended December 31, 2011		
	Number of Contracts	Pre-TDR Outstanding Recorded Investment	Post-TDR Outstanding Recorded Investment	Number of Contracts	Pre-TDR Outstanding Recorded Investment	Post-TDR Outstanding Recorded Investment
<b>Customer</b>						
North America	98	\$ 15	\$ 15	71	\$ 13	\$ 13
Europe <sup>(1)</sup>	21	8	8	7	44	44
Asia/Pacific	12	3	3	—	—	—
Mining	—	—	—	—	—	—
Latin America	41	5	5	12	10	10
Caterpillar Power Finance <sup>(2)(3)</sup>	27	253	253	35	117	117
Total <sup>(4)</sup>	199	\$ 284	\$ 284	125	\$ 184	\$ 184

<sup>(1)</sup> One customer comprises \$43 million of the \$44 million pre-TDR and post-TDR outstanding recorded investment for the year ended December 31, 2011.

<sup>(2)</sup> Ten customers comprise \$248 million of the \$253 million pre-TDR and post-TDR outstanding recorded investment for the year ended December 31, 2012. Three customers comprise \$104 million of the \$117 million pre-TDR and post-TDR outstanding recorded investment for the year ended December 31, 2011.

<sup>(3)</sup> During the years ended December 31, 2012 and 2011, \$24 million and \$15 million, respectively, of additional funds were subsequently loaned to a borrower whose terms had been modified in a TDR. The \$24 million and \$15 million of additional funds are not reflected in the tables above as no incremental modifications have been made with the borrower during the periods presented. At December 31, 2012, remaining commitments to lend additional funds to a borrower whose terms have been modified in a TDR were \$1 million.

<sup>(4)</sup> Modifications include extended contract maturities, inclusion of interest only periods, below market interest rates, and extended skip payment periods.

TDRs in the customer portfolio segment with a payment default during the years ended December 31, 2012 and 2011, which had been modified within twelve months prior to the default date, were as follows:

(Dollars in millions)

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	Number of Contracts	Post-TDR Recorded Investment	Number of Contracts	Post-TDR Recorded Investment
<b>Customer</b>				
North America	49	\$ 4	48	\$ 26
Europe	—	—	1	1
Asia/Pacific	2	1	—	—
Mining	—	—	—	—
Latin America	—	—	7	4
Caterpillar Power Finance <sup>(1)</sup>	16	21	14	70
Total	67	\$ 26	70	\$ 101

<sup>(1)</sup> Two customers comprise \$19 million of the \$21 million post-TDR recorded investment for the year ended December 31, 2012. Two customers comprise \$65 million of the \$70 million post-TDR recorded investment for the year ended December 31, 2011.

## C. Transfers of Receivables

### Securitized Retail Installment Sale Contracts and Finance Leases

We have periodically transferred certain finance receivables relating to our retail installment sale contracts and finance leases to special purpose entities (SPEs) as part of our asset-backed securitization program. These SPEs were concluded to be VIEs. We determined that we were the primary beneficiary based on our power to direct activities through our role as servicer and our obligation to absorb losses and right to receive benefits and therefore consolidated these securitization SPEs.

On April 25, 2011, we exercised a cleanup call on our only outstanding asset-backed securitization transaction. As a result, we had no assets or liabilities related to our securitization program as of December 31, 2012 or 2011. The restricted assets (Finance leases and installment sale contracts - Retail, Unearned income, Allowance for credit losses and Other assets) of the consolidated SPE totaled \$136 million as of December 31, 2010. The liabilities (Accrued expenses and Current maturities of long-term debt) of the consolidated SPE totaled \$73 million as of December 31, 2010.

#### Off-Balance Sheet Managed Assets

Certain finance receivables and equipment on operating leases are sold to third parties with limited or no recourse to us to mitigate the concentration of credit risk with certain customers and are generally accounted for as sales. In 2012, 2011 and 2010, we received \$206 million, \$207 million and \$16 million, respectively, of cash proceeds and recognized pre-tax gains of \$3 million, \$4 million and zero, respectively, from the sale of such assets. We typically maintain servicing responsibilities for these third-party assets, which totaled \$291 million, \$235 million and \$225 million as of December 31, 2012, 2011 and 2010, respectively. Because we do not receive a servicing fee for these assets, a servicing liability is recorded. As of December 31, 2012, 2011 and 2010, these liabilities were not material.

Total off-balance sheet managed assets as of December 31 were as follows:

(Millions of dollars)			
	2012	2011	2010
Retail finance leases	\$ 116	\$ 133	\$ 109
Retail installment sale contracts	66	48	73
Operating leases	60	15	36
Retail notes receivable	49	39	7
Total off-balance sheet managed assets	<u>\$ 291</u>	<u>\$ 235</u>	<u>\$ 225</u>

None of the receivables that are directly or indirectly sold or transferred to third parties in any of the foregoing transactions are available to pay our creditors.

#### D. Purchase of Trade Receivables from Caterpillar Entities

We purchase trade receivables from Caterpillar entities at a discount. The discount is an estimate of the amount of financing revenue that would be earned at a market rate on these trade receivables over their expected life. The discount is amortized into revenue on an effective yield basis over the life of the receivables and recognized as Wholesale finance revenue. For the years ended December 31, 2012, 2011 and 2010, amortized discounts for the trade receivables were \$241 million, \$212 million and \$139 million, respectively. In the Consolidated Statements of Cash Flows, collection of the discount is included in investing activities as the receivables are collected.

#### NOTE 3 – EQUIPMENT ON OPERATING LEASES

Components of equipment on operating leases, less accumulated depreciation as of December 31, were as follows:

(Millions of dollars)			
	2012	2011	2010
Equipment on operating leases, at cost	\$ 4,410	\$ 4,082	\$ 4,241
Less: Accumulated depreciation	(1,451)	(1,471)	(1,530)
Equipment on operating leases, net	<u>\$ 2,959</u>	<u>\$ 2,611</u>	<u>\$ 2,711</u>

At December 31, 2012, scheduled minimum rental payments for operating leases were as follows:

2013	2014	2015	2016	2017	Thereafter	Total
\$ 754	\$ 523	\$ 318	\$ 172	\$ 63	\$ 19	\$ 1,849

#### **NOTE 4 – CONCENTRATION OF CREDIT RISK**

Financial instruments with potential credit risk consist primarily of finance receivables. Additionally, to a lesser extent, we have potential credit risk associated with counterparties to derivative contracts.

As of December 31, 2012, 2011 and 2010, receivables from customers in construction-related industries made up approximately one-third of our total portfolio. As of December 31, 2012 and 2011, approximately 40 percent of construction-related receivables related to customers in North America. As of December 31, 2010, approximately 45 percent of construction-related receivables related to customers in North America. No single customer or dealer represented a significant concentration of credit risk. We typically maintain a security interest in retail financed equipment and require physical damage insurance coverage on all financed equipment. See Note 14 for further information concerning business segments.

Regarding our derivative instruments, collateral is not generally required of the counterparties or of us. We generally enter into International Swaps and Derivatives Association (ISDA) master netting agreements, which permit the net settlement of amounts owed. Our exposure to credit loss in the event of nonperformance by the counterparties is limited to only those gains that we have recorded, but for which we have not yet received cash payment. The master netting agreements reduce the amount of loss the Company would incur should the counterparties fail to meet their obligations. As of December 31, 2012, 2011 and 2010, the maximum exposure to credit loss was \$306 million, \$342 million and \$318 million, respectively, before the application of any master netting agreements. See Note 8 for further information concerning derivatives.

#### **NOTE 5 – CREDIT COMMITMENTS**

##### **Revolving credit facilities**

We have three global credit facilities with a syndicate of banks totaling \$10.00 billion (Credit Facility) available in the aggregate to both Caterpillar and us for general liquidity purposes. Based on management's allocation decision, which can be revised from time to time, the portion of the Credit Facility available to us as of December 31, 2012 was \$7.25 billion.

- The 364-day facility of \$3.00 billion (of which \$2.18 billion is available to us) expires in September 2013.
- The 2010 four-year facility, as amended, of \$2.60 billion (of which \$1.88 billion is available to us) expires in September 2015.
- The 2011 five-year facility, as amended, of \$4.40 billion (of which \$3.19 billion is available to us) expires in September 2017.

At December 31, 2012, Caterpillar's consolidated net worth was \$24.50 billion, which was above the \$9.00 billion required under the Credit Facility. The consolidated net worth is defined in the Credit Facility as the consolidated stockholder's equity including preferred stock but excluding the pension and other postretirement benefits balance within Accumulated other comprehensive income/(loss).

At December 31, 2012, our covenant interest coverage ratio was 1.70 to 1. This is above the 1.15 to 1 minimum ratio calculated as (1) profit excluding income taxes, interest expense and net gain/(loss) from interest rate derivatives to (2) interest expense calculated at the end of each calendar quarter for the rolling four quarter period then most recently ended, required by the Credit Facility.

In addition, at December 31, 2012, our six-month covenant leverage ratio was 8.70 to 1 and our year-end covenant leverage ratio was 8.74 to 1. This is below the maximum ratio of debt to net worth of 10 to 1, calculated (1) on a monthly basis as the average of the leverage ratios determined on the last day of each of the six preceding calendar months and (2) at each December 31, required by the Credit Facility.

In the event either Caterpillar or we do not meet one or more of our respective financial covenants under the Credit Facility in the future (and are unable to obtain a consent or waiver), the bank group may terminate the commitments allocated to the party that does not meet its covenants. Additionally, in such event, certain of our other lenders under other loan agreements where similar financial covenants or cross default provisions are applicable, may, at their election, choose to pursue remedies under those loan agreements, including accelerating the repayment of outstanding borrowings. At December 31, 2012, there were no borrowings under the Credit Facility.

**Bank borrowings**

Credit lines with banks as of December 31, 2012 totaled \$4.40 billion. These committed and uncommitted credit lines, which may be eligible for renewal at various future dates or have no specified expiration date, are used primarily by our non-U.S. subsidiaries for local funding requirements. The remaining available credit commitments may be withdrawn any time at the lenders' discretion. As of December 31, 2012, we had \$2.02 billion outstanding against these credit lines compared with \$2.11 billion as of December 31, 2011, and were in compliance with all debt covenants under these credit lines.

**Variable denomination floating rate demand notes**

We obtain funding from the sale of variable denomination floating rate demand notes, which may be redeemed at any time at the option of the holder without any material restriction. We do not hold reserves to fund the payment of the demand notes. The notes are offered on a continuous basis by prospectus only.

**Notes receivable from/payable to Caterpillar**

Under our variable amount lending agreements and other notes receivable with Caterpillar, we may borrow up to \$2.45 billion from Caterpillar, and Caterpillar may borrow up to \$1.66 billion from us. The agreements are in effect for indefinite periods of time and may be changed or terminated by either party with 30 days notice. We had notes receivable of \$360 million and notes payable of \$208 million outstanding under these agreements as of December 31, 2012, compared with notes receivable of \$327 million as of December 31, 2011.

**Committed credit facility**

In addition, during the first quarter of 2011, we extended a \$2 billion committed credit facility to Caterpillar, which expires in February 2019. We receive a fee from Caterpillar based on amounts drawn under the credit facility and a commitment fee for the undrawn amounts under the credit facility. At December 31, 2012, there were no borrowings under this credit facility.

**NOTE 6 – SHORT-TERM BORROWINGS**

Short-term borrowings outstanding as of December 31, were comprised of the following:

(Millions of dollars)	2012		2011		2010	
	Balance	Avg. Rate	Balance	Avg. Rate	Balance	Avg. Rate
Commercial paper, net	\$ 3,654	0.6%	\$ 2,818	1.0%	\$ 2,710	1.5%
Bank borrowings	418	5.6%	527	7.3%	479	4.9%
Variable denomination floating rate demand notes	579	0.8%	550	0.9%	663	1.1%
Total	<u>\$ 4,651</u>		<u>\$ 3,895</u>		<u>\$ 3,852</u>	



## **NOTE 7 – LONG-TERM DEBT**

During 2012, we issued \$8.03 billion of medium-term notes, of which \$6.58 billion were at fixed interest rates and \$1.45 billion were at floating interest rates, primarily indexed to LIBOR. At December 31, 2012, the outstanding medium-term notes had remaining maturities ranging up to 10 years.

Long-term debt outstanding as of December 31, was comprised of the following:

(Millions of dollars)	2012		2011		2010	
	Balance	Avg. Rate	Balance	Avg. Rate	Balance	Avg. Rate
Medium-term notes	\$ 23,488	3.2%	\$ 20,058	3.9%	\$ 17,690	4.6%
Unamortized discount	(13)		(10)		(9)	
Medium-term notes, net	23,475		20,048		17,681	
Bank borrowings	1,602	4.1%	1,583	3.7%	1,603	3.8%
Secured borrowings	—		—		78	4.9%
Total	<u>\$ 25,077</u>		<u>\$ 21,631</u>		<u>\$ 19,362</u>	

Long-term debt outstanding as of December 31, 2012, matures as follows:

(Millions of dollars)	
2013	\$ 5,991
2014	6,559
2015	4,648
2016	2,027
2017	2,693
Thereafter	3,159
Total	<u>\$ 25,077</u>

## **NOTE 8 – DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Our earnings and cash flow are subject to fluctuations due to changes in foreign currency exchange rates and interest rates. Our Risk Management Policy (policy) allows for the use of derivative financial instruments to prudently manage foreign currency exchange rate and interest rate exposures. Our policy specifies that derivatives are not to be used for speculative purposes. Derivatives that we use are primarily foreign currency forward and option contracts, cross currency contracts and interest rate swaps. Our derivative activities are subject to the management, direction and control of our senior financial officers. Risk management practices, including the use of financial derivative instruments, are presented to the Audit Committee of the Caterpillar Inc. Board of Directors at least annually.

All derivatives are recognized on the Consolidated Statements of Financial Position at their fair value. On the date the derivative contract is entered into, we designate the derivative as (1) a hedge of the fair value of a recognized asset or liability (fair value hedge), (2) a hedge of a forecasted transaction or the cash flow variability associated with variable-rate debt (cash flow hedge) or (3) an undesignated instrument. Changes in the fair value of a derivative that is qualified, designated and highly effective as a fair value hedge, along with the gain or loss on the hedged recognized asset or liability that is attributable to the hedged risk, are recorded in current earnings. Changes in the fair value of a derivative that is qualified, designated and highly effective as a cash flow hedge are recorded in Accumulated other comprehensive income (loss) (AOCI) on the Consolidated Statements of Financial Position until they are reclassified to earnings in the same period or periods during which the hedged transaction affects earnings. Changes in the fair value of undesignated derivative instruments and the ineffective portion of designated derivative instruments are reported in current earnings. Cash flow from designated derivative financial instruments is classified within the same category as the item being hedged on the Consolidated Statements of Cash Flows. Cash flow from undesignated derivative financial instruments is included in the investing category on the Consolidated Statements of Cash Flows.

We formally document all relationships between hedging instruments and hedged items, as well as the risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value hedges to specific assets and liabilities on the Consolidated Statements of Financial Position and linking cash flow hedges to specific forecasted transactions or variability of cash flow.

We also formally assess, both at the hedge's inception and on an ongoing basis, whether the designated derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flow of hedged items. When a derivative is determined not to be highly effective as a hedge or the underlying hedged transaction is no longer probable, we discontinue hedge accounting prospectively, in accordance with derecognition criteria for hedge accounting.

### **Foreign Currency Exchange Rate Risk**

In managing foreign currency risk, our objective is to minimize earnings volatility resulting from conversion, and the remeasurement of net foreign currency balance sheet positions and future transactions denominated in foreign currencies. Our policy allows the use of foreign currency forward, option, and cross currency contracts to offset the risk of currency mismatch between our receivables and debt, and exchange rate risk associated with future transactions denominated in foreign currencies. Substantially all such foreign currency forward, option and cross currency contracts are undesignated.

### **Interest Rate Risk**

Interest rate movements create a degree of risk by affecting the amount of our interest payments and the value of our fixed-rate debt. Our practice is to use interest rate swaps to manage our exposure to interest rate changes and, in some cases, to lower the cost of borrowed funds.

We have a match-funding policy that addresses interest rate risk by aligning the interest rate profile (fixed or floating rate) of our debt portfolio with the interest rate profile of our receivables portfolio within predetermined ranges on an ongoing basis. In connection with that policy, we use interest rate derivative instruments to modify the debt structure to match assets within the receivables portfolio. This matched funding reduces the volatility of margins between interest-bearing assets and interest-bearing liabilities, regardless of which direction interest rates move.

Our policy allows us to use fixed-to-floating, floating-to-fixed and floating-to-floating interest rate swaps to meet the match-funding objective. We designate fixed-to-floating interest rate swaps as fair value hedges to protect debt against changes in fair value due to changes in the benchmark interest rate. We designate most floating-to-fixed interest rate swaps as cash flow hedges to protect against the variability of cash flows due to changes in the benchmark interest rate.

As of December 31, 2012, \$3 million of deferred net losses, net of tax, included in equity (AOCI in the Consolidated Statements of Financial Position), related to our floating-to-fixed interest rate swaps, are expected to be reclassified to Interest expense over the next twelve months. The actual amount recorded in Interest expense will vary based on interest rates at the time the hedged transactions impact earnings.

We have, at certain times, liquidated fixed-to-floating interest rate swaps that resulted in deferred gains at the time of liquidation. The deferred gains associated with these interest rate swaps are included in Long-term debt in the Consolidated Statements of Financial Position and are being amortized to Interest expense over the remaining term of the previously designated hedged item.

The location and fair value of derivative instruments reported in the Consolidated Statements of Financial Position were as follows:

(Millions of dollars)		Asset (Liability) Fair Value		
		December 31,		
	Consolidated Statements of Financial Position Location	2012	2011	2010
<b>Designated derivatives</b>				
Interest rate contracts	Other assets	\$ 226	\$ 248	\$ 211
Interest rate contracts	Accrued expenses	(8)	(6)	(18)
		<u>\$ 218</u>	<u>\$ 242</u>	<u>\$ 193</u>
<b>Undesignated derivatives</b>				
Foreign exchange contracts	Other assets	\$ 10	\$ 7	\$ 6
Foreign exchange contracts	Accrued expenses	(5)	(16)	(9)
Cross currency contracts	Accrued expenses	(1)	—	—
Interest rate contracts	Other assets	2	—	—
Interest rate contracts	Accrued expenses	(1)	(1)	(1)
		<u>\$ 5</u>	<u>\$ (10)</u>	<u>\$ (4)</u>

For the years ended December 31, 2012, 2011 and 2010, the deferred gains (losses) recorded in AOCI on the Consolidated Statements of Changes in Stockholder's Equity associated with our cash flow interest rate contract hedges were as follows:

(Millions of dollars)	
<b>Balance as of December 31, 2011, net of tax of \$3</b>	<b>\$ (6)</b>
Gains (losses) deferred during the year, net of tax of \$-	1
(Gains) losses reclassified to earnings, net of tax of \$(1)	(3)
<b>Balance as of December 31, 2012, net of tax of \$4</b>	<b><u>\$ (8)</u></b>

(Millions of dollars)	
<b>Balance as of December 31, 2010, net of tax of \$6</b>	<b>\$ (14)</b>
Gains (losses) deferred during the year, net of tax of \$-	(1)
(Gains) losses reclassified to earnings, net of tax of \$3	9
<b>Balance as of December 31, 2011, net of tax of \$3</b>	<b><u>\$ (6)</u></b>

(Millions of dollars)	
<b>Balance as of December 31, 2009, net of tax of \$21</b>	<b>\$ (41)</b>
Gains (losses) deferred during the year, net of tax of \$1	(6)
(Gains) losses reclassified to earnings, net of tax of \$16	33
<b>Balance as of December 31, 2010, net of tax of \$6</b>	<b><u>\$ (14)</u></b>

The effect of derivatives designated as hedging instruments on the Consolidated Statements of Profit was as follows:

**Fair Value Hedges**  
(Millions of dollars)

		Year Ended December 31, 2012	
	Classification	Gains (Losses) on Derivatives	Gains (Losses) on Borrowings
Interest rate contracts	Other income (expense)	\$ (20)	\$ 36

  

		Year Ended December 31, 2011	
	Classification	Gains (Losses) on Derivatives	Gains (Losses) on Borrowings
Interest rate contracts	Other income (expense)	\$ 39	\$ (44)

  

		Year Ended December 31, 2010	
	Classification	Gains (Losses) on Derivatives	Gains (Losses) on Borrowings
Interest rate contracts	Other income (expense)	\$ 107	\$ (98)

**Cash Flow Hedges**  
(Millions of dollars)

		Year Ended December 31, 2012	
	Classification of Gains (Losses)	Reclassified from AOCI to Earnings (Effective Portion)	Recognized in Earnings (Ineffective Portion)
Interest rate contracts	Interest expense	\$ 4	\$ —
Interest rate contracts	Other income (expense)	—	(1)
		<u>\$ 4</u>	<u>\$ (1)</u>

  

		Year Ended December 31, 2011	
	Classification of Gains (Losses)	Reclassified from AOCI to Earnings (Effective Portion)	Recognized in Earnings (Ineffective Portion)
Interest rate contracts	Interest expense	\$ (12)	\$ —
Interest rate contracts	Other income (expense)	—	(2)
		<u>\$ (12)</u>	<u>\$ (2)</u>

  

		Year Ended December 31, 2010	
	Classification of Gains (Losses)	Reclassified from AOCI to Earnings (Effective Portion)	Recognized in Earnings (Ineffective Portion)
Interest rate contracts	Interest expense	\$ (49)	\$ —
Interest rate contracts	Other income (expense)	—	(1)
		<u>\$ (49)</u>	<u>\$ (1)</u>

The effect of derivatives not designated as hedging instruments on the Consolidated Statements of Profit was as follows for the years ended December 31:

### Undesignated Derivatives

(Millions of dollars)

	Classification of Gains (Losses)	2012	2011	2010
Foreign exchange contracts	Other income (expense)	\$ 7	\$ (15)	\$ 16
Cross currency contracts	Other income (expense)	(1)	—	—
Interest rate contracts	Other income (expense)	—	—	2
		<u>\$ 6</u>	<u>\$ (15)</u>	<u>\$ 18</u>

### Balance sheet offsetting

We enter into International Swaps and Derivatives Association (ISDA) master netting agreements that permit the net settlement of amounts owed under their respective derivative contracts. Under these master netting agreements, net settlement generally permits us or the counterparty to determine the net amount payable for contracts due on the same date and in the same currency for similar types of derivative transactions. The master netting agreements generally also provide for net settlement of all outstanding contracts with a counterparty in the case of an event of default or a termination event.

Collateral is generally not required of the counterparties or us under the master netting agreements. As of December 31, 2012, 2011 and 2010, no cash collateral was received or pledged under the master netting agreements.

The effect of the net settlement provisions of the master netting agreements on our derivative balances upon an event of default or a termination event is as follows:

### Offsetting of Derivative Assets and Liabilities

(Millions of dollars)

	December 31, 2012	December 31, 2011	December 31, 2010
<b>Derivative Assets</b>			
Gross Amount of Recognized Assets	\$ 238	\$ 255	\$ 217
Gross Amounts Offset	—	—	—
Net Amount of Assets <sup>(1)</sup>	<u>238</u>	<u>255</u>	<u>217</u>
<b>Gross Amounts Not Offset</b>			
Financial Instruments	(12)	(11)	(26)
Cash Collateral Received	—	—	—
Net Amount	<u>\$ 226</u>	<u>\$ 244</u>	<u>\$ 191</u>
<b>Derivative Liabilities</b>			
Gross Amount of Recognized Liabilities	\$ (15)	\$ (23)	\$ (28)
Gross Amounts Offset	—	—	—
Net Amount of Liabilities <sup>(1)</sup>	<u>(15)</u>	<u>(23)</u>	<u>(28)</u>
<b>Gross Amounts Not Offset</b>			
Financial Instruments	12	11	26
Cash Collateral Received	—	—	—
Net Amount	<u>\$ (3)</u>	<u>\$ (12)</u>	<u>\$ (2)</u>

<sup>(1)</sup> As presented in the Consolidated Statements of Financial Position.

## **NOTE 9 – COMMITMENTS AND CONTINGENT LIABILITIES**

We provide loan guarantees to third-party lenders for financing associated with machinery purchased by customers. These guarantees have varying terms and are secured by the machinery being financed. In addition, we participate in standby letters of credit issued to third parties on behalf of our customers. These standby letters of credit have varying terms and beneficiaries and are secured by customer assets.

We provided a limited indemnity to a third-party bank resulting from the assignment of certain leases to that bank. The indemnity was for the possibility that the insurers of these leases would become insolvent. The indemnity expired December 15, 2012.

No loss has been experienced or is anticipated under any of these guarantees. At December 31, 2012, 2011 and 2010, the related liability was \$2 million, \$2 million and \$3 million, respectively. The maximum potential amount of future payments (undiscounted and without reduction for any amounts that may possibly be recovered under recourse or collateralized provisions) we could be required to make under the guarantees was as follows:

<b>(Millions of dollars)</b>			
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Guarantees with customers <sup>(1)</sup>	\$ 61	\$ 69	\$ 79
Limited indemnity	—	11	17
<b>Total guarantees</b>	<b>\$ 61</b>	<b>\$ 80</b>	<b>\$ 96</b>

<sup>(1)</sup> Amounts have been revised to remove guarantees of consolidated subsidiary debt previously reported.

We provide guarantees to repurchase certain loans of Caterpillar dealers from a special purpose corporation (SPC) that qualifies as a VIE (see Note 1B for additional information regarding the accounting guidance on the consolidation of VIEs). The purpose of the SPC is to provide short-term working capital loans to Caterpillar dealers. This SPC issues commercial paper and uses the proceeds to fund its loan program. We have a loan purchase agreement with the SPC that obligates us to purchase certain loans that are not paid at maturity. We receive a fee for providing this guarantee, which provides a source of liquidity for the SPC. We are the primary beneficiary of the SPC as our guarantees result in us having both the power to direct the activities that most significantly impact the SPC's economic performance and the obligation to absorb losses, and therefore we have consolidated the financial statements of the SPC. As of December 31, 2012, 2011 and 2010, the SPC's assets of \$927 million, \$586 million and \$365 million, respectively, are primarily comprised of loans to dealers, which are included in Retail notes receivable in the Consolidated Statements of Financial Position, and the SPC's liabilities of \$927 million, \$586 million and \$365 million, respectively, are primarily comprised of commercial paper, which is included in Short-term borrowings in the Consolidated Statements of Financial Position. The assets of the SPC are not available to pay our creditors. We may be obligated to perform under the guarantee if the SPC experiences losses. No loss has been experienced or is anticipated under this loan purchase agreement.

We are party to agreements in the normal course of business with selected customers and Caterpillar dealers in which we commit to provide a set dollar amount of financing on a pre-approved basis. We also provide lines of credit to selected customers and Caterpillar dealers, of which a portion remains unused as of the end of the period. Commitments and lines of credit generally have fixed expiration dates or other termination clauses. It has been our experience that not all commitments and lines of credit will be used. Management applies the same credit policies when making commitments and granting lines of credit as it does for any other financing. We do not require collateral for these commitments/lines, but if credit is extended, collateral may be required upon funding. As of December 31, 2012, 2011 and 2010, the amount of the unused commitments and lines of credit for dealers was \$10.97 billion, \$6.60 billion and \$6.58 billion, respectively. As of December 31, 2012, 2011 and 2010, the amount of the unused commitments and lines of credit for customers was \$4.69 billion, \$2.79 billion and \$2.61 billion, respectively.

We are involved in unresolved legal actions that arise in the normal course of business. The majority of these unresolved actions involve claims to recover collateral, claims pursuant to customer bankruptcies and the pursuit of deficiency amounts. Although it is not possible to predict with certainty the outcome of our unresolved legal actions, we believe that these unresolved legal actions will neither individually nor in the aggregate have a material adverse effect on our consolidated financial position, liquidity or results of operations.

**NOTE 10 – INCOME TAXES**

The components of Profit before income taxes for the years ended December 31, were as follows:

<b>(Millions of dollars)</b>			
	<b>2012</b>	<b>2011</b>	<b>2010</b>
U.S.	\$ 38	\$ 49	\$ (50)
Non-U.S.	553	455	379
Total	<u>\$ 591</u>	<u>\$ 504</u>	<u>\$ 329</u>

Profit (loss) before income taxes, as shown above, is based on the location of the entity to which such earnings are attributable. Where an entity's earnings are subject to taxation, however, may not correlate solely to where an entity is located. Thus, the income tax provision shown below as U.S. or non-U.S. may not correspond to the earnings shown above.

The components of the Provision for income taxes were as follows for the years ended December 31:

<b>(Millions of dollars)</b>			
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Current income tax provision (benefit):</b>			
U.S.	\$ 14	\$ (14)	\$ (43)
Non-U.S.	179	164	109
State (U.S.)	(2)	2	(1)
	<u>191</u>	<u>152</u>	<u>65</u>
<b>Deferred income tax provision (benefit):</b>			
U.S.	(13)	(5)	(8)
Non-U.S.	(27)	(32)	(14)
State (U.S.)	(3)	(4)	(3)
	<u>(43)</u>	<u>(41)</u>	<u>(25)</u>
Total Provision for income taxes	<u>\$ 148</u>	<u>\$ 111</u>	<u>\$ 40</u>

Current income tax provision is the amount of income taxes reported or expected to be reported on our income tax returns. Under our tax sharing agreement with Caterpillar, we have paid to or received from (or will pay to or will receive from) Caterpillar, our allocated share of certain income tax liabilities or benefits.

The actual Provision for income taxes differs from the Provision for income taxes that would result from applying the U.S. statutory rate to Profit before income taxes for the years ended December 31, for the reasons set forth in the following reconciliation:

<b>(Millions of dollars)</b>							
	<b>2012</b>		<b>2011</b>		<b>2010</b>		
Taxes computed at U.S. statutory rates	\$	207	35.0 %	\$	176	35.0 %	\$ 115 35.0 %
(Decreases) increases in taxes resulting from:							
State Income Tax, net of Federal Tax		(3)	(0.5)%		(1)	(0.2)%	(2) (0.6)%
Prior Year Non-U.S. tax and interest adjustment – Refund Claim		—	— %		—	— %	(10) (3.0)%
Prior Year Non-U.S. tax and interest adjustment – Other		—	— %		(15)	(3.0)%	(12) (3.6)%
Subsidiaries' results subject to tax rates other than U.S. statutory rates		(50)	(8.6)%		(46)	(9.1)%	(47) (14.2)%
Other, net		(6)	(1.0)%		(3)	(0.6)%	(4) (1.2)%
Provision for income taxes	\$	148	24.9 %	\$	111	22.1 %	\$ 40 12.4 %

The prior year Non-U.S. tax and interest adjustment recorded in 2011 of \$15 million relates to a cumulative correction of immaterial errors in deferred tax amounts reported in prior periods in various non-U.S. tax jurisdictions.

The prior year Non-U.S. tax and interest adjustment recorded in 2010 of \$22 million includes a benefit of \$10 million from an income tax refund claim related to a prior year return and a tax benefit of \$12 million related to the true-up of estimated amounts used in the 2009 tax provision to the returns as filed in other non-U.S. tax jurisdictions.

We have recorded income tax expense at U.S. tax rates on all profits, except for undistributed profits of non-U.S. subsidiaries, which are considered indefinitely reinvested. Determination of the amount of unrecognized deferred income tax liability related to indefinitely reinvested profits is not feasible.

Accounting for income taxes under generally accepted accounting principles in the United States of America requires individual tax-paying entities of the Company to offset deferred income tax assets and liabilities within each particular tax jurisdiction and present them as a single amount in the Consolidated Statements of Financial Position. Amounts in different tax jurisdictions cannot be offset against each other. The amounts of deferred income taxes at December 31, included in the following lines in our Consolidated Statements of Financial Position were:

<b>(Millions of dollars)</b>			
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Assets:</b>			
Deferred and refundable income taxes	\$ 104	\$ 84	\$ 85
<b>Liabilities:</b>			
Deferred income taxes and other liabilities	(539)	(584)	(594)
Deferred income taxes, net	\$ (435)	\$ (500)	\$ (509)

Differences between accounting rules and income tax laws cause differences between the bases of certain assets and liabilities for financial reporting and income tax purposes. The income tax effects of these differences, to the extent they are temporary, are recorded as deferred income tax assets and liabilities netted by tax jurisdiction and taxpayer.



Our consolidated deferred income taxes consisted of the following components as of December 31:

<b>(Millions of dollars)</b>			
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Deferred tax assets:			
Allowance for credit losses	\$ 156	\$ 114	\$ 91
Tax credit carryforwards	—	13	24
Net operating loss carryforwards	59	69	92
	<u>215</u>	<u>196</u>	<u>207</u>
Deferred income tax liabilities (primarily lease basis differences)	(468)	(494)	(539)
Valuation allowance for deferred income tax assets	(9)	(9)	(8)
Deferred income tax on translation adjustment	(173)	(193)	(169)
Deferred income taxes, net	<u>\$ (435)</u>	<u>\$ (500)</u>	<u>\$ (509)</u>

As of December 31, 2012, amounts and expiration dates of net operating loss (NOL) carryforwards in various U.S. state taxing jurisdictions were:

<b>(Millions of dollars)</b>						
<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017-2031</b>	<b>Total</b>	
\$ —	\$ —	\$ —	\$ —	\$ 205	\$	205

The gross deferred income tax asset associated with these NOL carryforwards is \$16 million as of December 31, 2012, partially offset by a valuation allowance of \$5 million. The valuation allowance indicates the loss carryforwards are likely to expire prior to utilization.

In some U.S. state income tax jurisdictions, we join with other Caterpillar entities in filing combined income tax returns. In other U.S. state income tax jurisdictions, we file on a separate, stand-alone basis.

As of December 31, 2012, amounts and expiration dates of NOL carryforwards in various non-U.S. taxing jurisdictions were:

<b>(Millions of dollars)</b>							
<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017-2027</b>	<b>Unlimited</b>	<b>Total</b>	
\$ —	\$ 3	\$ 4	\$ 1	\$ 46	\$ 134	\$	188

Valuation allowances totaling \$4 million have been recorded at certain non-U.S. subsidiaries that have not yet demonstrated consistent and/or sustainable profitability to support the recognition of net deferred income tax assets.

A reconciliation of the beginning and ending amounts of gross unrecognized income tax benefits for uncertain income tax positions, including positions impacting only the timing of income tax benefits was as follows:

(Millions of dollars)			
	2012	2011	2010
<b>Reconciliation of unrecognized income tax benefits<sup>(1)</sup>:</b>			
Balance at beginning of year	\$ —	\$ 7	\$ 7
Additions for income tax positions related to prior year	2	—	—
Reductions for income tax positions related to prior year	—	(7)	—
Balance at end of year	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 7</u>
Amount that, if recognized, would impact the effective tax rate	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 2</u>

<sup>(1)</sup> Foreign currency translation amounts are included within each line as applicable.

We classify interest and penalties on income taxes as a component of the Provision for income taxes. During the year ended December 31, 2012, we recognized a benefit of \$5 million in interest and penalties. During the years ended December 31, 2011 and 2010, we recognized a benefit of less than \$1 million and an expense of less than \$1 million, respectively. As of December 31, 2012, 2011 and 2010, the total amount of accrued interest and penalties was less than \$1 million, \$5 million and \$5 million, respectively.

It is reasonably possible that the amount of unrecognized income tax benefits will change in the next 12 months. The U.S. Internal Revenue Service (IRS) is currently examining U.S. tax returns for 2007 to 2009. In 2012 we reached a settlement with the IRS for tax years 2000 to 2006, which resulted in an immaterial favorable impact in our 2012 financial results. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our financial position, liquidity or results of operations.

In our major non-U.S. jurisdictions, tax years are typically subject to examination for three to six years.

## **NOTE 11 – FAIR VALUE DISCLOSURES**

### **A. Fair Value Measurements**

The guidance on fair value measurements defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. This guidance also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. In accordance with this guidance, fair value measurements are classified under the following hierarchy:

- **Level 1** – Quoted prices for identical instruments in active markets.
- **Level 2** – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.
- **Level 3** – Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

When available, we use quoted market prices to determine fair value, and we classify such measurements within Level 1. In some cases where market prices are not available, we make use of observable market-based inputs to calculate fair value, in which case the measurements are classified within Level 2. If quoted or observable market prices are not available, fair value is based upon internally developed models that use, where possible, current market-based parameters such as interest rates, yield curves and currency rates. These measurements are classified within Level 3.

Fair value measurements are classified according to the lowest level input or value-driver that is significant to the valuation. A measurement may therefore be classified within Level 3 even though there may be significant inputs that are readily observable.

Fair value measurement includes the consideration of nonperformance risk. Nonperformance risk refers to the risk that an obligation (either by a counterparty or us) will not be fulfilled. For financial assets traded in an active market (Level 1), the nonperformance risk is included in the market price. For certain other financial assets and liabilities (Level 2 and 3), our fair value calculations have been adjusted accordingly.

#### Derivative financial instruments

The fair value of interest rate swap derivatives is primarily based on standard industry accepted models that utilize the appropriate market-based forward swap curves and zero-coupon interest rates to determine discounted cash flows. The fair value of foreign currency forward and cross currency contracts is based on a standard industry accepted valuation model that discounts cash flows resulting from the differential between the contract price and the market-based forward rate.

#### Guarantees

The fair value of guarantees is based on our estimate of the premium a market participant would require to issue the same guarantee in a stand-alone, arms-length transaction with an unrelated party. If quoted or observable market prices are not available, fair value is based upon internally developed models that utilize current market-based assumptions.

Assets and liabilities measured on a recurring basis at fair value included in our Consolidated Statements of Financial Position are summarized below:

(Millions of dollars)

December 31, 2012				
	Level 1	Level 2	Level 3	Total Assets/Liabilities, at Fair Value
<b>Assets</b>				
Derivative financial instruments, net	\$ —	\$ 223	\$ —	\$ 223
<b>Total Assets</b>	<u>\$ —</u>	<u>\$ 223</u>	<u>\$ —</u>	<u>\$ 223</u>
<b>Liabilities</b>				
Guarantees	\$ —	\$ —	\$ 2	\$ 2
<b>Total Liabilities</b>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ 2</u>
December 31, 2011				
	Level 1	Level 2	Level 3	Total Assets/Liabilities, at Fair Value
<b>Assets</b>				
Derivative financial instruments, net	\$ —	\$ 232	\$ —	\$ 232
<b>Total Assets</b>	<u>\$ —</u>	<u>\$ 232</u>	<u>\$ —</u>	<u>\$ 232</u>
<b>Liabilities</b>				
Guarantees	\$ —	\$ —	\$ 2	\$ 2
<b>Total Liabilities</b>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ 2</u>
December 31, 2010				
	Level 1	Level 2	Level 3	Total Assets/Liabilities, at Fair Value
<b>Assets</b>				
Derivative financial instruments, net	\$ —	\$ 189	\$ —	\$ 189
<b>Total Assets</b>	<u>\$ —</u>	<u>\$ 189</u>	<u>\$ —</u>	<u>\$ 189</u>
<b>Liabilities</b>				
Guarantees	\$ —	\$ —	\$ 3	\$ 3
<b>Total Liabilities</b>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3</u>	<u>\$ 3</u>

Below are roll-forwards of assets and liabilities measured at fair value using Level 3 inputs for the years ended December 31, 2012, 2011 and 2010. These instruments were valued using pricing models that, in management's judgment, reflect the assumptions of a marketplace participant.

(Millions of dollars)	Securitized	
	Retained Interests	Guarantees
<b>Balance as of December 31, 2009</b>	\$ 102	\$ 4
Adjustment to adopt consolidation of variable-interest entities	(102)	—
Issuance of guarantees	—	7
Expiration of guarantees	—	(8)
<b>Balance as of December 31, 2010</b>	\$ —	\$ 3
Issuance of guarantees	—	4
Expiration of guarantees	—	(5)
<b>Balance as of December 31, 2011</b>	\$ —	\$ 2
Issuance of guarantees	—	2
Expiration of guarantees	—	(2)
<b>Balance as of December 31, 2012</b>	\$ —	\$ 2

### Impaired loans

In addition to the amounts above, our impaired loans are subject to measurement at fair value on a nonrecurring basis. A loan is considered impaired when management determines that collection of contractual amounts due is not probable. In these cases, an Allowance for credit losses may be established based primarily on the fair value of associated collateral. As the collateral's fair value is based on observable market prices and/or current appraised values, the impaired loans are classified as Level 2 measurements. We had impaired loans carried at the fair value of the underlying collateral value of \$117 million, \$96 million and \$58 million as of December 31, 2012, 2011 and 2010, respectively.

## B. Fair Values of Financial Instruments

In addition to the methods and assumptions we use to record the fair value of financial instruments as discussed in the Fair Value Measurements section above, we used the following methods and assumptions to estimate the fair value of our financial instruments.

**Cash and cash equivalents** – carrying amount approximated fair value.

**Finance receivables, net** – fair value was estimated by discounting the future cash flows using current rates representative of receivables with similar remaining maturities.

**Restricted cash and cash equivalents** – carrying amount approximated fair value.

**Short-term borrowings** – carrying amount approximated fair value.

**Long-term debt** – fair value for fixed and floating-rate debt was estimated based on quoted market prices.

Please refer to the table below for the fair values of our financial instruments.

(Millions of dollars)	2012		2011		2010		Fair Value Levels	Reference
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value		
Cash and cash equivalents	\$ 2,080	\$ 2,080	\$ 1,176	\$ 1,176	\$ 1,676	\$ 1,676	1	
Foreign currency contracts:								
In a receivable position	\$ 10	\$ 10	\$ 7	\$ 7	\$ 6	\$ 6	2	Note 8
In a payable position	\$ (5)	\$ (5)	\$ (16)	\$ (16)	\$ (9)	\$ (9)	2	Note 8
Cross currency contracts	\$ (1)	\$ (1)	\$ —	\$ —	\$ —	\$ —	2	Note 8
Finance receivables, net (excluding finance leases <sup>(1)</sup> )	\$ 20,189	\$ 20,079	\$ 17,431	\$ 17,172	\$ 15,444	\$ 15,311	2	Note 2
Restricted cash and cash equivalents <sup>(2)</sup>	\$ 19	\$ 19	\$ 64	\$ 64	\$ 91	\$ 91	1	
Short-term borrowings	\$ (4,651)	\$ (4,651)	\$ (3,895)	\$ (3,895)	\$ (3,852)	\$ (3,852)	1	Note 6
Long-term debt	\$ (25,077)	\$ (26,063)	\$ (21,631)	\$ (22,674)	\$ (19,362)	\$ (20,364)	2	Note 7
Interest rate swaps:								
In a net receivable position	\$ 228	\$ 228	\$ 248	\$ 248	\$ 211	\$ 211	2	Note 8
In a net payable position	\$ (9)	\$ (9)	\$ (7)	\$ (7)	\$ (19)	\$ (19)	2	Note 8
Guarantees	\$ (2)	\$ (2)	\$ (2)	\$ (2)	\$ (3)	\$ (3)	3	Note 9

<sup>(1)</sup> As of December 31, 2012, 2011 and 2010, represents finance leases with a net carrying value of \$7,968 million, \$7,325 million and \$7,299 million, respectively.

<sup>(2)</sup> Included in Other assets in the Consolidated Statements of Financial Position.

## **NOTE 12 – TRANSACTIONS WITH RELATED PARTIES**

We have a Support Agreement with Caterpillar, which provides that Caterpillar will (1) remain, directly or indirectly, our sole owner; (2) cause us to maintain a tangible net worth of at least \$20 million and (3) ensure that we maintain a ratio of profit before income taxes and interest expense to interest expense (as defined by the Support Agreement) of not less than 1.15 to 1, calculated on an annual basis. In 2012, 2011 and 2010, Caterpillar did not make any significant capital contributions. Although this agreement can be modified by agreement or terminated by either party, any termination or any modification which would adversely affect holders of our debt requires the consent of holders of 66-2/3 percent in principal amount of outstanding debt of each series so affected. Any modification or termination which would adversely affect the lenders under the Credit Facility requires their consent. Caterpillar's obligation under this agreement is not directly enforceable by any of our creditors and does not constitute a guarantee of any of our obligations. A cash dividend of \$250 million was paid to Caterpillar in the first quarter of 2012. A cash dividend totaling \$600 million was paid to Caterpillar in 2011, \$300 million was paid in the first quarter of 2011 and \$300 million was paid in the third quarter of 2011. A cash dividend of \$600 million was paid to Caterpillar in the first quarter of 2010.

We have variable amount lending agreements and other notes receivable with Caterpillar. Under these agreements, we may borrow up to \$2.45 billion from Caterpillar, and Caterpillar may borrow up to \$1.66 billion from us. The agreements are in effect for indefinite periods of time and may be changed or terminated by either party with 30 days notice. During January of 2011, we extended a \$2 billion committed credit facility to Caterpillar, which expires in February 2019. Under this agreement, we receive a fee from Caterpillar based on amounts drawn under the credit facility and a commitment fee for the undrawn amounts under the credit facility. Information concerning these agreements was as follows:

(Millions of dollars)	2012	2011	2010
Notes payable as of December 31,	\$ 208	\$ —	\$ 600
Notes receivable as of December 31,	\$ 360	\$ 327	\$ 278
Interest expense	\$ 4	\$ 1	\$ 3
Interest income on Notes Receivable with Caterpillar <sup>(1)</sup>	\$ 21	\$ 16	\$ 73
Fees on committed credit facility extended to Caterpillar <sup>(1)</sup>	\$ 41	\$ 40	\$ —

<sup>(1)</sup> Included in Other revenues, net in the Consolidated Statements of Profit.

We have agreements with Caterpillar to purchase certain trade receivables at a discount. Information pertaining to these purchases was as follows:

<b>(Millions of dollars)</b>			
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Purchases made	\$ 36,665	\$ 32,068	\$ 16,513
Discounts earned	\$ 241	\$ 212	\$ 139
Balance as of December 31,	\$ 3,114	\$ 3,154	\$ 1,815

We participate in certain marketing programs sponsored by Caterpillar by providing financing to customers at interest rates that are below market rates. Under these programs, Caterpillar funds an amount at the outset of the transaction, which we then recognize as revenue over the term of the financing. During 2012, 2011 and 2010, relative to such programs, we received \$160 million, \$131 million and \$117 million, respectively.

We participate in various benefit plans, which are administered by Caterpillar. These plans include employee medical plans and postretirement benefit plans. We reimburse Caterpillar for these charges. During 2012, 2011 and 2010, these charges amounted to \$26 million, \$23 million and \$23 million, respectively. Included in these charges are contributions to defined benefit plans in the amount of \$7 million, \$7 million and \$8 million, respectively, for 2012, 2011 and 2010. These contributions are related to our participation in the following defined benefit plans that are administered by Caterpillar: the Caterpillar Inc. Retirement Income Plan, the Caterpillar Inc. Supplemental Retirement Plan and the Caterpillar Inc. Retiree Benefit Program. In addition, we participate in the Caterpillar stock incentive plans. In 2012, 2011 and 2010, Caterpillar allocated to us \$10 million, \$8 million and \$7 million, respectively, in expenses related to stock based compensation. In addition, Caterpillar provides operational and administrative support, which is integral to the conduct of our business. In 2012, 2011 and 2010, these operational and support charges for which we reimburse Caterpillar amounted to \$32 million, \$27 million and \$23 million, respectively.

We provide administrative support services to certain Caterpillar subsidiaries. Caterpillar reimburses us for these charges. During 2012, 2011 and 2010, these charges amounted to \$10 million, \$9 million and \$8 million, respectively.

When appropriate, we combine certain income tax filings with those of Caterpillar. In such instances, we pay to or receive from Caterpillar our allocated share of income taxes or credits, in accordance with our tax sharing agreement with Caterpillar.

#### **NOTE 13 – LEASES**

We lease our offices and other property through operating leases. Rental expense is charged to operations as incurred. For 2012, 2011 and 2010, total rental expense for operating leases was \$16 million, \$15 million and \$16 million, respectively. At December 31, 2012, minimum payments for operating leases having initial or remaining non-cancelable terms in excess of one year were as follows:

<b>(Millions of dollars)</b>	
2013	\$ 14
2014	13
2015	12
2016	10
2017	10
Thereafter	36
Total	\$ 95

## **NOTE 14 – SEGMENT INFORMATION**

### **A. Description of segments**

Our segment data is based on disclosure requirements of accounting guidance on segment reporting, which requires that financial information be reported on the basis that is used internally for measuring segment performance. Internally, we report information for operating segments based on management responsibility. Our operating segments offer primarily the same types of services within each of the respective segments. The operating segments are as follows:

- **North America** - Includes our operations in the United States and Canada that serve local dealers and customers.
- **Europe and Caterpillar Power Finance** - This segment includes our operations that serve dealers and customers in Europe, Africa, Middle East and the Commonwealth of Independent States. This segment also includes Caterpillar Power Finance (CPF), which finances marine vessels with Caterpillar engines worldwide and also provides debt financing for Caterpillar electrical power generation, gas compression and co-generation systems, as well as non-Caterpillar equipment that is powered by these systems worldwide.
- **Asia/Pacific** - This segment includes our operations in Australia, China, Japan, South Korea and Southeast Asia that serve local dealers and customers.
- **Latin America** - Includes our operations in Brazil, Mexico and Chile that serve local dealers and customers in Central and South America.
- **Mining** - This segment includes large mining customers worldwide. This segment also provides project financing in various countries.

### **B. Measurement and reconciliations**

Cash, debt and other expenses are allocated to operating segments based on their respective portfolios. The related Interest expense is calculated based on the amount of allocated debt and the rates associated with that debt. Effective January 1, 2013, the performance of each segment is assessed based on a consistent leverage ratio. The Provision for credit losses included in each operating segment's profit is based on each operating segment's share of the Company's Allowance for credit losses.

To align with changes in executive management responsibilities and measurement of segment performance, our management reporting was updated effective January 1, 2013. Prior year data has been revised to conform to the 2013 presentation.

Reconciling items are created based on accounting differences between operating segment reporting and our consolidated external reporting. For the reconciliation of profit before income taxes, we have grouped the reconciling items as follows:

- **Unallocated** - This item is related to corporate requirements and strategies that are considered to be for the benefit of the entire organization. Also included are the consolidated results of the special purpose corporation (see Note 7 for additional information) and other miscellaneous items.
- **Timing** - Timing differences in the recognition of costs between operating segment reporting and consolidated external reporting.
- **Methodology** - Methodology differences between our operating segment reporting and our consolidated external reporting are as follows:
  - Segment assets include off-balance sheet managed assets for which we typically maintain servicing responsibilities.
  - The impact of the difference between the actual leverage and the segment leverage ratios is included as a methodology difference.
  - Interest expense includes realized forward points on foreign currency forward contracts, with the mark-to-market elements of the forward exchange contracts included as a methodology difference.
  - The profit attributable to noncontrolling interests is considered a component of segment profit.

As noted above, the operating segment information is presented on a management-reporting basis. Unlike financial reporting, there is no authoritative guidance for management reporting equivalent to U.S. GAAP.

Supplemental segment data and reconciliations to consolidated external reporting for the years ended December 31 was as follows:

<b>(Millions of dollars)</b>							
<b>2012</b>	<b>Revenues</b>	<b>Segment Profit</b>	<b>Interest Expense</b>	<b>Depreciation on equipment leased to others</b>	<b>Provision for credit losses</b>	<b>Segment Assets at December 31, 2012</b>	<b>Capital expenditures</b>
North America	\$ 938	\$ 263	\$ 270	\$ 274	\$ 15	\$ 11,305	\$ 565
Europe and CPF	467	84	134	76	65	7,785	243
Asia/Pacific	399	132	155	23	24	6,151	133
Latin America	389	111	141	64	26	4,973	172
Mining	451	60	90	250	27	3,212	545
Total Segments	2,644	650	790	687	157	33,426	1,658
Unallocated	73	(93)	61	1	1	1,529	—
Timing	(24)	(6)	—	—	3	17	2
Methodology	—	40	(50)	—	—	(61)	—
Inter-segment Eliminations	—	—	—	—	—	(169)	—
Total	\$ 2,693	\$ 591	\$ 801	\$ 688	\$ 161	\$ 34,742	\$ 1,660

  

<b>2011</b>	<b>Revenues</b>	<b>Segment Profit</b>	<b>Interest Expense</b>	<b>Depreciation on equipment leased to others</b>	<b>Provision for credit losses</b>	<b>Segment Assets at December 31, 2011</b>	<b>Capital expenditures</b>
North America	\$ 959	\$ 222	\$ 303	\$ 276	\$ 34	\$ 10,867	\$ 530
Europe and CPF	506	37	166	89	105	6,922	118
Asia/Pacific	333	112	129	16	28	4,605	42
Latin America	350	111	127	47	17	3,995	175
Mining	446	72	90	260	3	2,635	321
Total Segments	2,594	554	815	688	187	29,024	1,186
Unallocated	73	(92)	69	2	2	1,253	3
Timing	(22)	6	—	—	(13)	67	1
Methodology	—	36	(57)	—	—	15	—
Inter-segment Eliminations	—	—	—	—	—	(247)	—
Total	\$ 2,645	\$ 504	\$ 827	\$ 690	\$ 176	\$ 30,112	\$ 1,190

  

<b>2010</b>	<b>Revenues</b>	<b>Segment Profit</b>	<b>Interest Expense</b>	<b>Depreciation on equipment leased to others</b>	<b>Provision for credit losses</b>	<b>Segment Assets at December 31, 2010</b>	<b>Capital expenditures</b>
North America	\$ 982	\$ 37	\$ 369	\$ 302	\$ 120	\$ 10,897	\$ 512
Europe and CPF	502	64	201	92	50	7,219	120
Asia/Pacific	441	96	136	133	25	4,360	21
Latin America	297	102	119	29	9	3,432	109
Mining	252	45	64	131	(3)	1,518	156
Total Segments	2,474	344	889	687	201	27,426	918
Unallocated	103	(47)	76	3	—	1,415	40
Timing	(25)	(17)	—	—	12	113	1
Methodology	—	49	(48)	—	—	(21)	—
Inter-segment Eliminations	—	—	—	—	—	(181)	—
Total	\$ 2,552	\$ 329	\$ 917	\$ 690	\$ 213	\$ 28,752	\$ 959



Inside and outside the United States:

(Millions of dollars)			
	2012	2011	2010
<b>Revenues</b>			
Inside U.S.	\$ 1,142	\$ 1,112	\$ 1,138
Inside Canada	347	374	362
Inside Australia	301	259	222
All other	903	900	830
Total	<u>\$ 2,693</u>	<u>\$ 2,645</u>	<u>\$ 2,552</u>

<b>Equipment on Operating Leases and Non-Leased Equipment (included in Other Assets), Net</b>			
	2012	2011	2010
Inside U.S.	\$ 1,218	\$ 986	\$ 1,044
Inside Canada	761	771	818
Inside Australia	342	314	343
All other	742	592	567
Total	<u>\$ 3,063</u>	<u>\$ 2,663</u>	<u>\$ 2,772</u>

**NOTE 15 – SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

(Millions of dollars)					
2012	First quarter	Second quarter	Third quarter	Fourth quarter	
Total revenues	\$ 668	\$ 668	\$ 678	\$ 679	
Profit before income taxes	\$ 170	\$ 144	\$ 153	\$ 124	
Profit	\$ 120	\$ 104	\$ 109	\$ 99	
2011	First quarter	Second quarter	Third quarter	Fourth quarter	
Total revenues	\$ 640	\$ 675	\$ 668	\$ 662	
Profit before income taxes	\$ 115	\$ 152	\$ 126	\$ 111	
Profit	\$ 83	\$ 107	\$ 93	\$ 95	
2010	First quarter	Second quarter	Third quarter	Fourth quarter	
Total revenues	\$ 631	\$ 648	\$ 640	\$ 633	
Profit before income taxes	\$ 71	\$ 95	\$ 89	\$ 74	
Profit	\$ 53	\$ 82	\$ 73	\$ 70	

**OVERVIEW: 2012 VS. 2011**

We reported revenues of \$2.69 billion in 2012, an increase of \$48 million, or 2 percent, compared with 2011. Profit after tax was \$432 million, a \$54 million, or 14 percent, increase from 2011.

- The increase in revenues was primarily due to a \$223 million favorable impact from higher average earning assets (finance receivables and operating leases at constant rates), partially offset by a \$139 million unfavorable impact from lower average financing rates on new and existing finance receivables and operating leases and a \$33 million unfavorable impact from returned or repossessed equipment.
- Profit before income taxes was \$591 million for 2012, compared with \$504 million for 2011. The increase was primarily due to an \$89 million favorable impact from higher average earning assets, a \$22 million favorable impact from mark-to-market adjustments that were recorded on interest rate derivative contracts and a \$15 million decrease in the provision for credit losses. These increases in pre-tax profit were partially offset by a \$33 million unfavorable impact from returned or repossessed equipment.
- The Provision for income taxes reflects an annual tax rate of 25 percent for both 2012 and 2011. The 2011 Provision for income taxes included a \$15 million benefit related to prior years.
- New retail financing for 2012 was \$13.96 billion, an increase of \$2.63 billion, or 23 percent, from 2011. The increase was a result of growth across all operating segments, with the largest increases occurring in our Europe and Caterpillar Power Finance, Asia/Pacific and Mining operating segments.
- During 2012, our overall portfolio quality reflected continued improvement. At the end of 2012, past dues were 2.26 percent compared with 2.80 percent at the end of the third quarter of 2012 and 2.89 percent at the end of 2011.
- Write-offs, net of recoveries, were \$102 million for the full-year 2012, compared with \$158 million for 2011. Full-year 2012 write-offs, net of recoveries, were 0.42 percent of average annual retail portfolio, compared with 0.70 percent in 2011.
- At year-end 2012, our Allowance for credit losses totaled \$426 million or 1.49 percent of net finance receivables, compared with \$369 million or 1.47 percent of net finance receivables at year-end 2011. The overall increase of \$57 million in Allowance for credit losses during the year reflects a \$51 million increase in allowance due to an increase in our net finance receivables portfolio and a \$6 million increase associated with the higher allowance rate.

## **REVIEW OF CONSOLIDATED STATEMENTS OF PROFIT**

### **2012 VS. 2011**

#### **REVENUES**

Retail and wholesale revenue for 2012 was \$1.68 billion, an increase of \$87 million from 2011. The increase was due to a \$145 million favorable impact from higher average earning assets (finance receivables at constant interest rates), partially offset by a \$58 million unfavorable impact from lower interest rates on new and existing retail and wholesale receivables. The annualized average yield was 6.31 percent for 2012, compared with 6.53 percent in 2011.

Operating lease revenue for 2012 was \$860 million, a decrease of \$10 million from 2011. The decrease in operating lease revenue was due to a \$49 million unfavorable impact from lower average financing rates on operating leases, partially offset by a \$39 million favorable impact from higher average earning assets (operating leases at constant rates).

Other revenue, net, items were as follows:

<b>(Millions of dollars)</b>		
	<b>2012</b>	<b>2011</b>
Finance receivable and operating lease fees (including late charges)	\$ 70	\$ 68
Fees on committed credit facility extended to Caterpillar	41	40
Interest income on Notes Receivable from Caterpillar	21	16
Net gain on returned or repossessed equipment	—	33
Miscellaneous other revenue, net	24	28
Total Other revenue, net	<u>\$ 156</u>	<u>\$ 185</u>

#### **EXPENSES**

Interest expense for 2012 was \$801 million, a decrease of \$26 million from 2011. This decrease was primarily due to a reduction of 47 basis points in the average cost of borrowing to 2.93 percent for 2012, down from 3.40 percent for 2011, partially offset by the impact of a 12 percent increase in average borrowings.

Depreciation expense on equipment leased to others was \$688 million, down \$2 million from 2011.

General, operating and administrative expenses were \$416 million for 2012, compared with \$405 million for 2011. The increase was primarily due to increases in labor costs. There were 1,745 full-time employees as of December 31, 2012, compared with 1,670 as of December 31, 2011.

The Provision for credit losses was \$161 million for 2012, down \$15 million from 2011 due to an \$11 million decrease in the provision expense related to finance receivables (a result of a decrease in write-offs, net of recoveries, partially offset by the impact of an increase in the allowance rate and portfolio growth) and a \$4 million decrease in the provision expense for miscellaneous receivables. The Allowance for credit losses as of December 31, 2012 was 1.49 percent of net finance receivables compared with 1.47 percent as of December 31, 2011. See Note 2B of Notes to Consolidated Financial Statements for further discussion.

Other expenses were \$29 million for 2012, compared with \$34 million for 2011.

Other income (expense) items were as follows:

<b>(Millions of dollars)</b>		
	<b>2012</b>	<b>2011</b>
Net gain (loss) from interest rate derivatives	\$ 15	\$ (7)
Net currency exchange loss, including forward points	(22)	(5)
Other miscellaneous income	—	3
Total Other income (expense)	<u>\$ (7)</u>	<u>\$ (9)</u>

The Provision for income taxes was \$148 million for 2012, compared with \$111 million for 2011. The Provision for income taxes reflects an annual tax rate of 25 percent for both 2012 and 2011. The 2011 Provision for income taxes included a \$15 million benefit related to prior years. See Note 1B of Notes to Consolidated Financial Statements for further discussion.

### **PROFIT**

As a result of the performance discussed above, we had profit of \$432 million for 2012, an increase of \$54 million, or 14 percent, from 2011.

## **REVIEW OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

### **ASSETS**

Total assets were \$34.74 billion as of December 31, 2012, an increase of \$4.63 billion, or 15 percent, from December 31, 2011, primarily due to an increase in net finance receivables and an increase in our cash position.

During 2012, new retail financing was \$13.96 billion, an increase of \$2.63 billion, or 23 percent, from 2011. The increase was a result of growth across all operating segments, with the largest increases occurring in our Europe and Caterpillar Power Finance, Asia/Pacific and Mining operating segments.

### **Total Off-Balance Sheet Managed Assets**

We manage and service receivables and leases that have been sold to third parties with limited or no recourse to us to mitigate the concentration of credit risk with certain customers. These receivables/leases are not available to pay our creditors.

Off-balance sheet managed assets as of December 31, were as follows:

<b>(Millions of dollars)</b>		
	<b>2012</b>	<b>2011</b>
Retail finance leases	\$ 116	\$ 133
Retail installment sale contracts	66	48
Operating leases	60	15
Retail notes receivable	49	39
Total off-balance sheet managed assets	<u>\$ 291</u>	<u>\$ 235</u>

### **TOTAL PAST DUE FINANCE AND RENTS RECEIVABLE**

During 2012, our overall portfolio quality reflected continued improvement. At the end of 2012, past dues were 2.26 percent compared with 2.80 percent at the end of the third quarter of 2012 and 2.89 percent at the end of 2011. Write-offs, net of recoveries, were \$102 million for the full-year 2012, compared with \$158 million for 2011. Full-year 2012 write-offs, net of recoveries, were 0.42 percent of average annual retail portfolio, compared with 0.70 percent in 2011.

**FOURTH QUARTER 2012 VS. FOURTH QUARTER 2011****CONSOLIDATED STATEMENTS OF PROFIT**  
**(Dollars in Millions)**

	<b>Three Months Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenues:</b>		
Retail finance	\$ 347	\$ 325
Operating lease	212	212
Wholesale finance	83	78
Other, net	37	47
Total revenues	<u>679</u>	<u>662</u>
<b>Expenses:</b>		
Interest	198	203
Depreciation on equipment leased to others	173	170
General, operating and administrative	108	114
Provision for credit losses	69	52
Other	9	8
Total expenses	<u>557</u>	<u>547</u>
Other income (expense)	<u>2</u>	<u>(4)</u>
<b>Profit before income taxes</b>	<b>124</b>	<b>111</b>
Provision for income taxes	<u>22</u>	<u>13</u>
<b>Profit of consolidated companies</b>	<b>102</b>	<b>98</b>
Less: Profit attributable to noncontrolling interests	<u>3</u>	<u>3</u>
<b>Profit<sup>1</sup></b>	<b><u>\$ 99</u></b>	<b><u>\$ 95</u></b>

<sup>1</sup> Profit attributable to Caterpillar Financial Services Corporation.

## **REVIEW OF CONSOLIDATED STATEMENTS OF PROFIT**

### **THREE MONTHS ENDED DECEMBER 31, 2012 VS. THREE MONTHS ENDED DECEMBER 31, 2011**

#### **REVENUES**

Retail and wholesale revenue for the fourth quarter of 2012 was \$430 million, an increase of \$27 million from the same period in 2011. The increase was due to a \$52 million favorable impact from higher average earning assets (finance receivables at constant interest rates), partially offset by a \$25 million unfavorable impact from lower interest rates on new and existing retail and wholesale receivables. The annualized average yield was 6.15 percent for the fourth quarter of 2012, compared with 6.53 percent for the fourth quarter of 2011.

Operating lease revenue was \$212 million for both the fourth quarter of 2012 and 2011. The \$24 million favorable impact from higher average earning assets (operating leases at constant rates) was offset by a \$24 million unfavorable impact from lower average financing rates on operating leases.

Other revenue, net, items were as follows:

(Millions of dollars)	Three Months Ended December 31,	
	2012	2011
Finance receivable and operating lease fees (including late charges)	\$ 17	\$ 16
Fees on committed credit facility extended to Caterpillar	11	10
Interest income on Notes Receivable from Caterpillar	5	5
Net gain (loss) on returned or repossessed equipment	(2)	10
Miscellaneous other revenue, net	6	6
Total Other revenue, net	<u>\$ 37</u>	<u>\$ 47</u>

#### **EXPENSES**

Interest expense for the fourth quarter of 2012 was \$198 million, a decrease of \$5 million from the same period in 2011. This decrease was primarily due to a reduction of 49 basis points in the average cost of borrowing to 2.71 percent for 2012, down from 3.20 percent for 2011, partially offset by the impact of a 16 percent increase in average borrowings.

Depreciation expense on equipment leased to others was \$173 million, up \$3 million from the fourth quarter of 2011.

General, operating and administrative expenses were \$108 million for the fourth quarter of 2012, compared with \$114 million for the same period in 2011. The decrease was primarily due to lower incentive compensation expense. There were 1,745 full-time employees as of December 31, 2012, compared with 1,670 as of December 31, 2011.

The Provision for credit losses was \$69 million for the fourth quarter of 2012, up \$17 million from the fourth quarter of 2011 due to a \$20 million increase in the provision expense related to finance receivables (a result of the impact of an increase in the allowance rate and an increase in write-offs, net of recoveries), partially offset by a \$3 million decrease in the provision expense for miscellaneous receivables. The Allowance for credit losses as of December 31, 2012 was 1.49 percent of net finance receivables compared with 1.47 percent as of December 31, 2011. See Note 2B of Notes to Consolidated Financial Statements for further discussion.

Other expenses were \$9 million for the fourth quarter of 2012, compared with \$8 million for the fourth quarter of 2011.

Other income (expense) items were as follows:

(Millions of dollars)	Three Months Ended December 31,	
	2012	2011
Net gain from interest rate derivatives	\$ 5	\$ —
Net currency exchange loss, including forward points	(3)	(4)
Total Other income (expense)	<u>\$ 2</u>	<u>\$ (4)</u>

The Provision for income taxes was \$22 million for the fourth quarter of 2012, compared with \$13 million for the fourth quarter of 2011. The Provision for income taxes in the fourth quarter reflects an annual tax rate of 25 percent for both 2012 and 2011. The 2011 fourth-quarter Provision for income taxes included an \$18 million benefit related to prior years.

### **PROFIT**

As a result of the performance discussed above, we had profit of \$99 million for the fourth quarter of 2012, an increase of \$4 million, or 4 percent, from the fourth quarter of 2011.

## **2011 VS. 2010**

### **REVENUES**

Retail and wholesale revenue for 2011 was \$1.59 billion, an increase of \$65 million from 2010. The increase was due to a \$101 million favorable impact from higher average earning assets (finance receivables at constant interest rates), partially offset by a \$36 million unfavorable impact from lower interest rates on new and existing retail and wholesale receivables. The annualized average yield was 6.53 percent for 2011, compared with 6.68 percent in 2010.

Operating lease revenue for 2011 was \$870 million, a decrease of \$15 million from 2010. The decrease in operating lease revenue was due to a \$35 million unfavorable impact from lower average earning assets (operating leases at constant rates), partially offset by a \$20 million favorable impact from higher average financing rates on operating leases.

Other revenue, net, items were as follows:

<b>(Millions of dollars)</b>		
	<b>2011</b>	<b>2010</b>
Finance receivable and operating lease fees (including late charges)	\$ 68	\$ 72
Fees on committed credit facility extended to Caterpillar	40	—
Net gain (loss) on returned or repossessed equipment	33	(16)
Interest income on Notes Receivable from Caterpillar	16	73
Miscellaneous other revenue, net	28	13
Total Other revenue, net	<u>\$ 185</u>	<u>\$ 142</u>

### **EXPENSES**

Interest expense for 2011 was \$827 million, a decrease of \$90 million from 2010. This decrease was primarily due to a reduction of 40 basis points in the average cost of borrowing to 3.40 percent for 2011, down from 3.80 percent for 2010, partially offset by the impact of a 1 percent increase in average borrowings.

Depreciation expense on equipment leased to others was \$690 million for both 2011 and 2010.

General, operating and administrative expenses were \$405 million for 2011, compared with \$351 million for 2010. The increase was due to increases in labor costs and other operating expenses. There were 1,670 full-time employees as of December 31, 2011, compared with 1,572 as of December 31, 2010.

The Provision for credit losses was \$176 million for 2011, down \$37 million from 2010 due to a \$35 million decrease in the provision expense related to finance receivables as a result of improved portfolio health, partially offset by the impact of portfolio growth and a \$2 million decrease in the provision expense for miscellaneous receivables. The Allowance for credit losses as of December 31, 2011 was 1.47 percent of net finance receivables compared with 1.57 percent as of December 31, 2010. See Note 2B of Notes to Consolidated Financial Statements for further discussion.

Other expenses were \$34 million for 2011, compared with \$54 million for 2010. The decrease was primarily attributable to fewer repossessions.

Other income (expense) items were as follows:

<b>(Millions of dollars)</b>		
	<b>2011</b>	<b>2010</b>
Net gain (loss) from interest rate derivatives	\$ (7)	\$ 10
Net currency exchange loss, including forward points	(5)	(8)
Other miscellaneous income	3	—
Total Other income (expense)	<u>\$ (9)</u>	<u>\$ 2</u>



The Provision for income taxes was \$111 million for 2011, compared with \$40 million for 2010. The Provision for income taxes for 2011 reflects an annual tax rate of 25 percent compared with 19 percent in 2010. The 2011 tax rate was reduced by a benefit of \$15 million related to prior years, while the 2010 tax rate was reduced by a benefit of \$22 million related to prior years. The annual tax rate increased during 2011 primarily due to changes in our geographic mix of pre-tax profits. See Note 1B of Notes to Consolidated Financial Statements for further discussion.

### **PROFIT**

As a result of the performance discussed above, we had profit of \$378 million for 2011, up \$100 million, or 36 percent, from 2010.

## **REVIEW OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

### **ASSETS**

Total assets were \$30.11 billion as of December 31, 2011, an increase of \$1.36 billion, or 5 percent, from December 31, 2010, principally due to an increase in net finance receivables, partially offset by a decrease in cash and cash equivalents.

During 2011, new retail financing was \$11.32 billion, an increase of \$1.9 billion, or 20 percent, from 2010. The increase was primarily related to growth in our Mining, Asia/Pacific and North America operating segments.

### **Total Off-Balance Sheet Managed Assets**

We manage and service receivables and leases that have been sold to third parties with limited or no recourse to us to mitigate the concentration of credit risk with certain customers. These receivables/leases are not available to pay our creditors.

Off-balance sheet managed assets as of December 31, were as follows:

<b>(Millions of dollars)</b>		
	<b>2011</b>	<b>2010</b>
Retail finance leases	\$ 133	\$ 109
Retail installment sale contracts	48	73
Retail notes receivable	39	7
Operating leases	15	36
Total off-balance sheet managed assets	<u>\$ 235</u>	<u>\$ 225</u>

### **TOTAL PAST DUE FINANCE AND RENTS RECEIVABLE**

During 2011, our overall portfolio quality reflected continued improvement. At the end of 2011, past dues were 2.89 percent, down from 3.54 percent at the end of the third quarter of 2011 and 3.87 percent at the end of 2010. Write-offs, net of recoveries, were \$158 million for the full-year 2011, compared with \$237 million for 2010. Full-year 2011 write-offs, net of recoveries, were 0.70 percent of average annual retail portfolio, compared with 1.04 percent in 2010.

## **CAPITAL RESOURCES AND LIQUIDITY**

Capital resources and liquidity provide us with the ability to meet our financial obligations on a timely basis. Maintaining and managing adequate capital and liquidity resources includes management of funding sources and their utilization based on current, future and contingent needs. Our cash balances are held in numerous locations throughout the world. We expect to meet our United States funding needs without repatriating undistributed profits that are indefinitely reinvested outside the United States. We do not generate material funding through structured finance transactions.

In the event that we, or any of our debt securities, experience a credit rating downgrade it would likely result in an increase in our borrowing costs and make access to certain credit markets more difficult. In the event economic conditions deteriorate such that access to debt markets becomes unavailable, we would rely on cash flows from our existing portfolio, utilization of existing cash balances, access to our revolving credit facilities and our other credit facilities and potential borrowings from Caterpillar. In addition, Caterpillar maintains a support agreement with us, which requires Caterpillar to remain as our sole owner and which may, under certain circumstances, require Caterpillar to make payments to us should we fail to maintain certain financial ratios.

### **BORROWINGS**

Borrowings consist primarily of medium-term notes, commercial paper, bank borrowings and variable denomination floating rate demand notes, the combination of which is used to manage interest rate risk and funding requirements. (Please refer to Notes 5, 6, 7 and 8 of Notes to Consolidated Financial Statements for additional discussion.)

Total borrowings outstanding as of December 31, 2012, were \$29.94 billion, an increase of \$4.41 billion over December 31, 2011, due to increasing portfolio balances and to provide for increased liquidity. Outstanding borrowings as of December 31 were as follows:

**(Millions of dollars)**

	<b>2012</b>	<b>2011</b>
Medium-term notes, net of unamortized discount	\$ 23,475	\$ 20,048
Commercial paper, net of unamortized discount	3,654	2,818
Bank borrowings – long-term	1,602	1,583
Bank borrowings – short-term	418	527
Variable denomination floating rate demand notes	579	550
Notes payable to Caterpillar	208	—
<b>Total outstanding borrowings</b>	<b>\$ 29,936</b>	<b>\$ 25,526</b>

### **Medium-term notes**

We issue medium-term unsecured notes through securities dealers or underwriters in the U.S., Canada, Europe, Australia, Japan, Hong Kong, Argentina and Mexico to both retail and institutional investors. These notes are offered in several currencies and with a variety of maturities. These notes are senior unsecured obligations of the Company. Medium-term notes outstanding as of December 31, 2012, mature as follows:

**(Millions of dollars)**

2013	\$ 5,439
2014	5,978
2015	4,408
2016	1,911
2017	2,639
Thereafter	3,100
<b>Total</b>	<b>\$ 23,475</b>

Medium-term notes issued totaled \$8.03 billion and redeemed totaled \$4.51 billion for the year ended December 31, 2012.

**Commercial paper**

We issue unsecured commercial paper in the U.S., Europe and other international capital markets. These short-term promissory notes are issued on a discounted basis and are payable at maturity.

**Revolving credit facilities**

We have three global credit facilities with a syndicate of banks totaling \$10.00 billion (Credit Facility) available in the aggregate to both Caterpillar and us for general liquidity purposes. Based on management's allocation decision, which can be revised from time to time, the portion of the Credit Facility available to us as of December 31, 2012 was \$7.25 billion.

- The 364-day facility of \$3.00 billion (of which \$2.18 billion is available to us) expires in September 2013.
- The 2010 four-year facility, as amended, of \$2.60 billion (of which \$1.88 billion is available to us) expires in September 2015.
- The 2011 five-year facility, as amended, of \$4.40 billion (of which \$3.19 billion is available to us) expires in September 2017.

At December 31, 2012, Caterpillar's consolidated net worth was \$24.50 billion, which was above the \$9.00 billion required under the Credit Facility. The consolidated net worth is defined in the Credit Facility as the consolidated stockholder's equity including preferred stock but excluding the pension and other postretirement benefits balance within Accumulated other comprehensive income/(loss).

At December 31, 2012, our covenant interest coverage ratio was 1.70 to 1. This is above the 1.15 to 1 minimum ratio calculated as (1) profit excluding income taxes, interest expense and net gain/(loss) from interest rate derivatives to (2) interest expense calculated at the end of each calendar quarter for the rolling four quarter period then most recently ended, required by the Credit Facility.

In addition, at December 31, 2012, our six-month covenant leverage ratio was 8.70 to 1 and our year-end covenant leverage ratio was 8.74 to 1. This is below the maximum ratio of debt to net worth of 10 to 1, calculated (1) on a monthly basis as the average of the leverage ratios determined on the last day of each of the six preceding calendar months and (2) at each December 31, required by the Credit Facility.

In the event that either Caterpillar or we do not meet one or more of our respective financial covenants under the Credit Facility in the future (and are unable to obtain a consent or waiver), the bank group may terminate the commitments allocated to the party that does not meet its covenants. Additionally, in such event, certain of our other lenders under other loan agreements where similar financial covenants or cross default provisions are applicable, may, at their election, choose to pursue remedies under those loan agreements, including accelerating the repayment of outstanding borrowings. At December 31, 2012, there were no borrowings under the Credit Facility.

**Bank borrowings**

Credit lines with banks as of December 31, 2012 totaled \$4.40 billion. These committed and uncommitted credit lines, which may be eligible for renewal at various future dates or have no specified expiration date, are used primarily by our non-U.S. subsidiaries for local funding requirements. The remaining available credit commitments may be withdrawn any time at the lenders' discretion. As of December 31, 2012, we had \$2.02 billion outstanding against these credit lines compared with \$2.11 billion as of December 31, 2011, and were in compliance with all debt covenants under these credit lines.

**Variable denomination floating rate demand notes**

We obtain funding from the sale of variable denomination floating rate demand notes, which may be redeemed at any time at the option of the holder without any material restriction. We do not hold reserves to fund the payment of the demand notes. The notes are offered on a continuous basis by prospectus only.

**Notes receivable from/payable to Caterpillar**

Under our variable amount lending agreements and other notes receivable with Caterpillar, we may borrow up to \$2.45 billion from Caterpillar, and Caterpillar may borrow up to \$1.66 billion from us. The agreements are in effect for indefinite periods of time and may be changed or terminated by either party with 30 days notice. We had notes receivable of \$360 million and notes payable of \$208 million outstanding under these agreements as of December 31, 2012, compared with notes receivable of \$327 million as of December 31, 2011.

### **Committed credit facility**

In addition, during the first quarter of 2011, we extended a \$2 billion committed credit facility to Caterpillar, which expires in February 2019. We receive a fee from Caterpillar based on amounts drawn under the credit facility and a commitment fee for the undrawn amounts under the credit facility. At December 31, 2012, there were no borrowings under this credit facility.

### **OFF-BALANCE SHEET ARRANGEMENTS**

We lease all of our facilities. In addition, we have potential payment exposure for guarantees issued to third parties totaling \$61 million as of December 31, 2012. Please refer to Notes 9 and 13 of Notes to Consolidated Financial Statements for further information.

### ***Transfers of receivables***

Certain finance receivables and equipment on operating leases are sold to third parties with limited or no recourse to us to mitigate the concentration of credit risk with certain customers. In 2012, we received \$206 million of cash proceeds from the sale of such assets.

### **CONTRACTUAL OBLIGATIONS**

We have committed cash outflow related to long-term debt, operating lease agreements and purchase obligations. Minimum payments for these obligations are:

<b>(Millions of dollars)</b>							
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>After 2017</b>	<b>Total</b>
Long-term debt	\$ 5,991	\$ 6,559	\$ 4,648	\$ 2,027	\$ 2,693	\$ 3,159	\$ 25,077
Operating leases	14	13	12	10	10	36	95
Purchase obligations <sup>(1)</sup>	23	1	—	—	—	—	24
Interest payable on long-term debt	627	447	307	253	195	226	2,055
Total contractual obligations	<u>\$ 6,655</u>	<u>\$ 7,020</u>	<u>\$ 4,967</u>	<u>\$ 2,290</u>	<u>\$ 2,898</u>	<u>\$ 3,421</u>	<u>\$ 27,251</u>

<sup>(1)</sup>Represents short-term contractual obligations made in the ordinary course of business for contracted services at December 31, 2012.

These contractual obligations do not include unused commitments and lines of credit for dealers and customers discussed in Note 9 of Notes to Consolidated Financial Statements.

### **CASH FLOWS**

The net cash provided by financing and operating activities was used primarily to fund continued growth in our finance receivable and operating lease portfolios. Operating cash flow for 2012 was \$1.04 billion compared with \$973 million for 2011. Net cash used for investing activities in 2012 was \$4.35 billion compared with \$2.80 billion for 2011. The change is primarily due to more net cash used for finance receivables and capital expenditures for equipment on operating leases due to increased growth in the portfolio. Net cash provided by financing activities in 2012 was \$4.30 billion compared with \$1.29 billion in 2011. The change is primarily attributable to a net increase in debt in order to meet higher portfolio funding requirements and provide for increased liquidity and the net impact of our various lending arrangements with Caterpillar.

## **CRITICAL ACCOUNTING POLICIES**

The preparation of financial statements, in conformity with generally accepted accounting principles in the United States of America, requires management to make estimates and assumptions that affect reported amounts. The most significant estimates include those related to the residual values for leased assets, our Allowance for credit losses and the income tax reserve. Actual results may differ from these estimates.

### **Residual Values for Leased Assets**

Lease residual values, which are based upon the estimated wholesale market value of leased equipment at the time of the expiration of the lease, are based on a careful analysis of historical wholesale market sales prices, projected forward on a level trend line without consideration for inflation or possible future pricing action. At the inception of the lease, residual values are derived from consideration of the following critical factors: market size and demand, any known significant market/product trends, total expected hours of usage, machine configuration, application, location, model changes, quantities and past re-marketing experience, third-party residual guarantees and contractual customer purchase options. Many of these factors are gathered in an application survey that is completed prior to quotation. The lease agreement also clearly defines applicable return conditions and remedies for non-compliance, to ensure that the leased equipment will be in good operating condition upon return. Model changes and updates, as well as market strength and product acceptance, are monitored and adjustments are made to residual values in accordance with the significance of any such changes. Remarketing sales staff works closely with customers and dealers to manage the sale of lease returns and the recovery of residual exposure.

During the term of the leases, residual amounts are monitored. If estimated market values reflect a non-temporary impairment due to economic factors, obsolescence or other adverse circumstances, the residuals are adjusted to the lower estimated values by a charge to earnings. For equipment on operating leases, the charge is recognized through depreciation expense. For finance leases, it is recognized through a reduction of finance revenue.

### **Allowance for Credit Losses**

Management's ongoing evaluation of the adequacy of the Allowance for credit losses considers both impaired and unimpaired finance receivables and takes into consideration past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of underlying collateral and current economic conditions. In estimating probable credit losses, we review accounts that are past due, non-performing, in bankruptcy or otherwise identified as at-risk for potential credit loss including accounts which have been modified. Accounts are identified as at-risk for potential credit loss using information available about the customer, such as financial statements, news reports and published credit ratings, as well as general information regarding industry trends and the economic environment in which our customers operate.

The Allowance for credit losses attributable to specific accounts is based on the most probable source of repayment, which is normally the liquidation of collateral. In determining collateral value, we estimate the current fair market value of the collateral. In addition, consideration is given to credit enhancements such as additional collateral and contractual third-party guarantees in determining the Allowance for credit losses attributable to non-performing receivables. The Allowance for credit losses attributable to the remaining accounts is a general allowance based upon the risk in the portfolio primarily using probabilities of default and an estimate of associated losses. In addition, qualitative factors not able to be fully captured in previous analysis including industry trends, macroeconomic factors and model imprecision are considered in the evaluation of the adequacy of the Allowance for credit losses. These qualitative factors are subjective and require a degree of management judgment.

While management believes it has exercised prudent judgment and applied reasonable assumptions, there can be no assurance that in the future, changes in economic conditions or other factors would not cause changes in the financial health of our customers. If the financial health of our customer deteriorates, the timing and level of payments received could be impacted and therefore, could result in a change to our estimated losses.

### **Income Tax Reserve**

We are subject to the income tax laws of the many jurisdictions in which we operate. These tax laws are complex, and the manner in which they apply to our facts is sometimes open to interpretation. In establishing the Provision for income taxes, we must make judgments about the application of these inherently complex tax laws.

Despite our belief that our tax return positions are consistent with applicable tax laws, we believe that taxing authorities could challenge certain positions. Settlement of any challenge can result in no change, a complete disallowance, or some partial adjustment reached through negotiations or litigation. We record tax benefits for uncertain tax positions based upon management's evaluation of the information available at the reporting date. To be recognized in the financial statements, a tax benefit must be at least more likely than not of being sustained based on technical merits. The benefit for positions meeting the recognition threshold

is measured as the largest benefit more likely than not of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Significant judgment is required in making these determinations and adjustments to unrecognized tax benefits may be necessary to reflect actual taxes payable upon settlement. Adjustments related to positions impacting the effective tax rate affect the Provision for income taxes. Adjustments related to positions impacting the timing of deductions impact deferred tax assets and liabilities.

Our income tax positions and analysis are based on currently enacted tax law. Future changes in tax law could significantly impact the Provision for income taxes, the amount of taxes payable, and the deferred tax asset and liability balances. Deferred tax assets generally represent tax benefits for tax deductions or credits available in future tax returns. Certain estimates and assumptions are required to determine whether it is more likely than not that all or some portion of the benefit of a deferred tax asset will not be realized. In making this assessment, management analyzes and estimates the impact of future taxable income, reversing temporary differences and available prudent and feasible tax planning strategies. Should a change in facts or circumstances lead to a change in judgment about the ultimate realizability of a deferred tax asset, we record or adjust the related valuation allowance in the period that the change in facts and circumstances occurs, along with a corresponding increase or decrease in the Provision for income taxes.

A provision for U.S. income taxes has not been recorded on undistributed profits of our non-U.S. subsidiaries that we have determined to be indefinitely reinvested outside the U.S. If management intentions or U.S. tax law changes in the future, there may be a significant negative impact on the Provision for income taxes to record an incremental tax liability in the period the change occurs. A deferred tax asset is recognized only if we have definite plans to generate a U.S. tax benefit by repatriating earnings in the foreseeable future.