

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

OVERVIEW

We are exposed to a variety of market and other risks, including the effects of changes in foreign currency exchange rates, commodity prices, and interest rates, as well as risks to availability of funding sources, hazard events, and specific asset risks.

These risks affect our Automotive and Ford Credit segments differently. We monitor and manage these exposures as an integral part of our overall risk management program, which includes regular reports to a central management committee, the Global Risk Management Committee ("GRMC"). The GRMC is chaired by our Chief Financial Officer, and the committee includes our Controller and Treasurer.

Our Automotive and Ford Credit segments are exposed to liquidity risk, including the possibility of having to curtail business or being unable to meet financial obligations as they come due because funding sources may be reduced or become unavailable. Our plan is to maintain funding sources to ensure liquidity through a variety of economic or business cycles. As discussed in greater detail in Item 7, our funding sources include sales of receivables in securitizations and other structured financings, unsecured debt issuances, equity and equity-linked issuances, and bank borrowings.

We are exposed to a variety of risks, such as loss or damage to property, liability claims, and employee injury. We protect against these risks through the purchase of commercial insurance that is designed to protect us above our self-insured retentions against events that could generate significant losses.

Direct responsibility for the execution of our market risk management strategies resides with our Treasurer's Office and is governed by written policies and procedures. Separation of duties is maintained between the development and authorization of derivative trades, the transaction of derivatives, and the settlement of cash flows. Regular audits are conducted to ensure that appropriate controls are in place and that they remain effective. In addition, our market risk exposures and our use of derivatives to manage these exposures are approved by the GRMC, and reviewed by the Audit Committee of our Board of Directors.

In accordance with our corporate risk management policies, we use derivative instruments, when available, such as forward contracts, swaps, and options that economically hedge certain exposures (foreign currency, commodity, and interest rates). We do not use derivative contracts for trading, market-making, or speculative purposes. In certain instances, we forgo hedge accounting, and in certain other instances, our derivatives do not qualify for hedge accounting. Either situation results in unrealized gains and losses that are recognized in income. For additional information on our derivatives, see Note 20 of the Notes to the Financial Statements.

The market and counterparty risks of our Automotive and Ford Credit segments are discussed and quantified below.

AUTOMOTIVE MARKET RISK

Our Automotive segment frequently has expenditures and receipts denominated in foreign currencies, including the following: purchases and sales of finished vehicles and production parts, debt and other payables, subsidiary dividends, and investments in foreign operations. These expenditures and receipts create exposures to changes in exchange rates. We also are exposed to changes in prices of commodities used in the production of our vehicles and changes in interest rates.

Foreign currency risk, commodity risk, and interest rate risk are measured and quantified using a model to evaluate the sensitivity of market value to instantaneous, parallel shifts in rates and/or prices.

Foreign Currency Risk. Foreign currency risk is the possibility that our financial results could be worse than planned because of changes in currency exchange rates. Accordingly, our practice is to use derivative instruments to hedge our economic exposure with respect to forecasted revenues and costs, assets, liabilities, and firm commitments denominated in certain foreign currencies consistent with our overall risk management strategy. In our hedging actions, we use derivative instruments commonly used by corporations to reduce foreign exchange risk (e.g., forward contracts).