

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 24. VARIABLE INTEREST ENTITIES

A VIE is an entity that either (i) has insufficient equity to finance its activities without additional subordinated financial support, or (ii) has equity investors who lack the characteristics of a controlling financial interest. We consolidate VIEs of which we are the primary beneficiary. We consider ourselves the primary beneficiary of a VIE when we have both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE. Assets recognized as a result of consolidating these VIEs do not represent additional assets that could be used to satisfy claims against our general assets. Liabilities recognized as a result of consolidating these VIEs do not represent additional claims on our general assets; rather, they represent claims against the specific assets of the consolidated VIEs.

We have the power to direct the significant activities of an entity when our management has the ability to make key operating decisions, such as decisions regarding budgets, capital investment, manufacturing, or product development. For securitization entities, we have the power to direct significant activities when we have the ability to exercise discretion in the servicing of financial assets, issue additional debt, exercise a unilateral call option, add assets to revolving structures, or control investment decisions.

VIEs of Which We are Not the Primary Beneficiary

Certain of our affiliates are VIEs in which we are not the primary beneficiary. Our maximum exposure to any potential losses associated with these unconsolidated affiliates is limited to our equity investments, accounts receivable, loans, and guarantees and was \$ 2.8 billion and \$ 1.0 billion at December 31, 2021 and 2022, respectively, of which \$ 113 million of guarantees related to certain obligations of our VIEs in 2022 are also included in Note 25. The decrease in maximum exposure from December 31, 2021 is primarily explained by Argo AI (see Note 14), partially offset by the investment in BlueOval SK (as described below).

On July 13, 2022, Ford, SK On Co., Ltd., and SK Battery America, Inc. (a wholly owned subsidiary of SK On) completed the creation of BlueOval SK, LLC, a 50/ 50 joint venture that will build and operate electric vehicle battery plants in Tennessee and Kentucky to supply batteries to Ford and Ford affiliates. BlueOval SK is a variable interest entity of which we are not the primary beneficiary, and we use the equity method of accounting for our investment. As of December 31, 2022, Ford has contributed to BlueOval SK \$ 691 million of its agreed capital contribution of up to \$ 6.6 billion through 2026, subject to any adjustments agreed to by the parties.

VIEs of Which We are the Primary Beneficiary

Securitization Entities. Through Ford Credit, we securitize, transfer, and service financial assets associated with consumer finance receivables, operating leases, and wholesale loans. Our securitization transactions typically involve the legal transfer of financial assets to bankruptcy remote SPEs. We generally retain a portion of the economic interests in the asset-backed securitization transactions, which could be retained in the form of a portion of the senior interests, the subordinated interests, cash reserve accounts, residual interests, and servicing rights. The transfers of assets in our securitization transactions do not qualify for accounting sale treatment. In most cases, the bankruptcy remote SPEs meet the definition of VIEs for which we are the primary beneficiary and, therefore, are consolidated. We account for all securitization transactions as if they were secured financing and therefore the assets, liabilities, and related activity of these transactions are consolidated in our financial statements. See Note 19 for additional information on the accounting for asset-backed debt and the assets securing this debt.