NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

We may hold annuity contracts within some of our non-U.S. pension plans (see Note 17). Generally, the contract valuation method is applied for markets where we have purchased non-participating annuity contracts from an insurer as a plan asset. The Ford-Werke GmbH ("Ford-Werke") defined benefit plan is primarily funded through a participating group insurance contract. For the Ford-Werke plan, we measure the fair value of the insurance asset by projecting expected future cash flows from the contract and discounting them to present value based on current market rates as well as an assessment for non-performance risk of the insurance company. The assumptions used to project expected future cash flows are based on actuarial estimates and are unobservable. We include all annuity contracts within Level 3 of the hierarchy.

Finance Receivables. We measure finance receivables at fair value using internal valuation models (see Note 10). These models project future cash flows of financing contracts based on scheduled contract payments (including principal and interest) and assumptions regarding expected credit losses and pre-payment speed. The projected cash flows are discounted to present value at current rates that incorporate present yield curve and credit spread assumptions. The fair value of finance receivables is categorized within Level 3 of the hierarchy.

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

The fair value of collateral for retail receivables is calculated as the outstanding receivable balances multiplied by the average recovery value percentage. The fair value of collateral for wholesale receivables is based on the wholesale market value or liquidation value for new and used vehicles. The fair value of collateral for dealer loans is determined by reviewing various appraisals, which include total adjusted appraised value of land and improvements, alternate use appraised value, broker's opinion of value, and purchase offers.

Debt. We measure debt at fair value using quoted prices for our own debt with approximately the same remaining maturities (see Note 19). Where quoted prices are not available, we estimate fair value using discounted cash flows and market-based expectations for interest rates, credit risk, and the contractual terms of the debt instruments. For certain short-term debt with an original maturity date of one year or less, we assume that book value is a reasonable approximation of the debt's fair value. The fair value of debt is categorized within Level 2 of the hierarchy.

Finance and Lease Incentives

We routinely sponsor special retail financing and lease incentives to dealers' customers who choose to finance or lease our vehicles from Ford Credit. The cost for these incentives is included in our estimate of variable consideration when the vehicle is sold to the dealer. Ford Credit records a reduction to the finance receivable or reduces the cost of the vehicle operating lease when it records the underlying finance contract, and we transfer to Ford Credit the amount of the incentive on behalf of the dealer's customer. See Note 1 for additional information regarding transactions between Automotive and Ford Credit. The Ford Credit segment recognized interest revenue of $ 2.4 billion, $ 2.4 billion, and $ 2.1 billion in 2020, 2021, and 2022, respectively, and lower depreciation of $ 2.3 billion, $ 1.9 billion, and $ 1.2 billion in 2020, 2021, and 2022, respectively, associated with these incentives.

Supplier Price Adjustments

We frequently negotiate price adjustments with our suppliers throughout a production cycle, even after receiving production material. These price adjustments relate to changes in design specification or other commercial terms such as economics, productivity, and competitive pricing. We recognize price adjustments when we reach final agreement with our suppliers. In general, we avoid direct price changes in consideration of future business; however, when these occur, our policy is to defer the recognition of any such price change given explicitly in consideration of future business.