FORD AUTO SECURITIZATION TRUST™

Unaudited Financial Statements
as at and for the Period Ended June 30, 2022

FORD AUTO SECURITIZATION TRUST™

Unaudited Financial Statements

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FORD AUTO SECURITIZATION TRUST™

STATEMENT OF COMPREHENSIVE INCOME
For the Periods Ended June 30, 2021 and 2022
(in thousands of Canadian dollars)

	Notes	Second Quarter 2021 (unaudited)	Second Quarter **2022** (unaudited)	First Half 2021 (unaudited)	First Half **2022** (unaudited)
Interest income	3, 9	$ 150,748	**$ 153,605**	$ 286,987	**$ 315,573**
Interest expense	3, 9	(19,592)	**(31,750)**	(38,764)	**(54,083)**
Net interest income		131,156	**121,855**	248,223	**261,490**
Net gains/(losses) on derivative instruments at fair value through profit or loss		1,444	**37,051**	2,829	**80,590**
Operating expenses		(215)	**(186)**	(542)	**(542)**
Operating profit/(loss)		132,385	**158,720**	250,510	**341,538**
Change in due to seller	3, 7	(132,385)	**(158,720)**	(250,510)	**(341,538)**
Profit for period		-	**-**	-	**-**
Other comprehensive income/(loss)		-	**-**	-	**-**
Total comprehensive income/(loss)		$ -	**$ -**	$ -	**$ -**
Profit is attributable to:					
Seller		$ -	**$ -**	$ -	**$ -**
Profit for period		$ -	**$ -**	$ -	**$ -**
Total comprehensive income/(loss) for the period is attributable to:					
Seller		$ -	**$ -**	$ -	**$ -**
Total comprehensive income/(loss) for the period		$ -	**$ -**	$ -	**$ -**

The accompanying notes are an integral part of the financial statements.

FORD AUTO SECURITIZATION TRUST™

BALANCE SHEET
(in thousands of Canadian dollars)

	Notes	December 31, 2021	**June 30, 2022**
			(unaudited)
ASSETS			
Cash and cash equivalents	4	$ 394,083	**$ 391,083**
Accounts receivable	3	32,947	**33,998**
Ownership interest in receivables	3, 5	6,550,058	**6,678,179**
Derivative financial instruments	8	25,733	**110,763**
Total assets		$ 7,002,821	**$ 7,214,023**
LIABILITIES			
Other accrued liabilities	3	$ 441	**$ 1,024**
Interest payable	3	5,402	**10,286**
Debt	3, 6	6,020,277	**6,171,462**
Derivative financial instruments	8	3,559	**11**
Due to seller	3, 7	973,142	**1,031,240**
Total liabilities		7,002,821	**7,214,023**
Equity (nominal)		-	**-**
Total liabilities and equity		$ 7,002,821	**$ 7,214,023**

The accompanying notes are an integral part of the financial statements.

FORD AUTO SECURITIZATION TRUST™

STATEMENT OF CHANGES IN EQUITY
For the Periods Ended June 30, 2021 and 2022
(in thousands of Canadian dollars, unaudited)

	Paid-In Capital	Retained Earnings	Total Equity
Balance at December 31, 2020	$ -	$ -	$ -
Comprehensive income/(loss)	-	-	-
Balance at June 30, 2021	$ -	$ -	$ -
Balance at December 31, 2021	**$ -**	**$ -**	**$ -**
Comprehensive income/(loss)	**-**	**-**	**-**
Balance at June 30, 2022	**$ -**	**$ -**	**$ -**

Paid-in Capital consists of a nominal amount of $5.00, held by the Issuer Trustee. This Paid-in Capital does not have any residual interest in the net assets of the Trust.

The accompanying notes are an integral part of the financial statements.

FORD AUTO SECURITIZATION TRUST™

STATEMENT OF CASH FLOWS
For the Periods Ended June 30, 2021 and 2022
(in thousands of Canadian dollars)

	First Half	
	2021	**2022**
	(unaudited)	
Cash flows from operating activities		
Profit for period	$ -	**$ -**
Adjustments to reconcile profit for period:		
Interest expense/(income), net	(248,223)	**(261,490)**
Non cash items included in other accrued liabilities	118	**(272)**
Net (gains)/losses on derivative instruments at fair value through profit or loss	(2,829)	**(80,590)**
Change in due to seller	250,510	**341,538**
Changes in assets and liabilities:		
Acquisition of ownership interest in receivables	(1,391,495)	**(2,028,545)**
Principal collections on ownership interest in receivables	1,907,470	**2,279,472**
Increase/(decrease) in other accrued liabilities	(249)	**583**
Interest received	70,685	**89,097**
Interest paid	(37,341)	**(47,443)**
Derivative financial instruments - net interest received/(paid)	(12,615)	**(7,988)**
Net cash provided by/(used in) operating activities	536,031	**284,362**
Cash flows from financing activities		
Proceeds from issuances of debt, net of fees	1,399,000	**2,034,000**
Principal payments on debt	(1,554,044)	**(1,883,864)**
Deferred charges reimbursed to seller	(1,441)	**(356)**
Excess spread paid to seller	(348,454)	**(437,142)**
Net cash provided by/(used in) financing activities	(504,939)	**(287,362)**
Net increase/(decrease) in cash and cash equivalents	31,092	**(3,000)**
Cash and cash equivalents, beginning of period	388,458	**394,083**
Cash and cash equivalents, end of period	$ 419,550	**$ 391,083**

The accompanying notes are an integral part of the financial statements.

NOTE 1. NATURE OF OPERATIONS

Ford Auto Securitization Trust™ (the "Trust") was established by Computershare Trust Company of Canada, as Issuer Trustee, pursuant to a Declaration of Trust, dated October 2, 2008, as amended and restated on June 26, 2009 and April 13, 2017, under the laws of the Province of Ontario. The address of the Trust's registered office is 100 University Avenue, 11th Floor, North Tower, Toronto, Ontario M5J 2Y1.

The Trust is a special purpose master trust whose business is limited to acquiring retail conditional sale contracts purchased by Ford Credit Canada Company ("FCCC", "Servicer", or "Seller") from motor vehicle dealers to finance the purchase of new and used cars, trucks, and utility vehicles by retail and commercial customers located in Canada. The Trust issues asset-backed notes ("Notes") in Series ("Series") with varying terms to finance the acquisition of the receivables and uses the collections on the receivables to pay its obligations. The Trust pledges acquired receivables to the Series that finances the acquisition of the receivables. The Trust is restricted from operating any other business. The Trust is a limited life entity and will wind up its operations not later than October 2, 2029. The beneficiary of the Trust is an incorporated registered charity in Canada.

The Trust and FCCC assess the Canadian asset-backed securitization market on an on-going basis and intend to structure and bring to market Series of Notes from time to time. The types of Notes and frequency of issuance will depend on various factors, including market demand, the availability of sufficient levels of receivables to collateralize the securities, overall financial market conditions, the activities of competitors and the cost of related services. Any Series issued will be secured solely by the Trust's Series-specific *Ownership interest in receivables* and other Trust assets.

FCCC acts as the Administrative Agent of the Trust pursuant to an Administration Agreement dated as of April 13, 2017 with the Trust. The Administrative Agent performs certain administrative activities on behalf of the Trust, including retaining legal counsel as may be necessary to perform legal services on behalf of the Trust, retaining an accounting firm, if necessary, and ensuring that proper books of account and complete records of all transactions of the Trust are maintained, rendering statements required to be delivered by the Trust under the transaction documents. The Administrative Agent also ensures that the Trust makes all returns and filings required to be made in the conduct of the operations of the Trust.

The Trust's immediate controlling party is FCCC. The results of the Trust are included in the results of FCCC which are included in the consolidated financial statements of Ford Motor Credit Company LLC ("FMCC"). The results of FMCC are included in the consolidated financial statements of Ford Motor Company ("Ford"), the ultimate controlling party of the Trust.

The only segment in which the Trust operates is the automotive financial services segment in Canada.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles as set out in Part I of the CPA Canada Handbook – Accounting and Assurance ("CPA Handbook"), which incorporates International Accounting Standard 34, Interim Financial Reporting, using accounting policies consistent with International Financial Reporting Standards ("IFRS"). As such, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with IFRS have been omitted or condensed.

The financial statements have been prepared under a historical cost convention with the exception of certain financial instruments such as *Cash and cash equivalents* and *Derivative financial instruments* that are measured at fair value. The financial statements are presented in Canadian dollars, the functional currency of the Trust.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise judgment in the process of applying the entity's accounting policies. The key areas of estimation include the fair value of *Derivative financial instruments* and the *Ownership interest in receivables* on acquisition and determining the effective interest rate on the *Ownership interest in receivables* and *Debt.* The key area of management judgment is the accounting for *Due to seller*, as detailed in the related accounting policy stated below.

These financial statements were approved by FCCC for issue on August 16, 2022.

B. Classification of Financial Assets and Financial Liabilities and Offsetting

The Trust recognizes financial assets and financial liabilities when it becomes party to the contractual provisions of the instrument. The Trust derecognizes financial assets when the rights to receive cash flows from the assets have expired or have been transferred, and derecognizes financial liabilities when the obligation specified in the contract is discharged or expires.

The classification of financial assets and financial liabilities is determined at initial recognition. The Trust classifies and measures its financial assets in the following categories based on the cash flow characteristics of the assets and the business model for holding these assets: at fair value through profit or loss or at amortized cost. The Trust has not classified any financial assets into the fair value through other comprehensive income category. The Trust accounts for its financial liabilities at fair value through profit or loss or at amortized cost.

Financial assets at fair value through profit or loss: This category consists of *Cash and cash equivalents* and *Derivative financial instruments.* Changes in the fair value of *Cash and cash equivalents* and *Derivative financial instruments* are recorded in profit or loss.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial assets at amortized cost: This category consists of *Ownership interest in receivables* and *Accounts receivable*. These assets are non-derivative financial assets with contractual cash flows that are solely payments of principal and interest. Our objective for holding these assets is to collect their contractual cash flows. These assets are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method.

Financial liabilities at fair value through profit or loss: This category consists of *Derivative financial instruments.* Changes in the fair value of *Derivative financial instruments* are recorded in profit or loss.

Financial liabilities at amortized cost: This category consists of *Debt, Interest payable* and *Other accrued liabilities*. These liabilities are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method.

Purchases of financial assets are recognized on the settlement date, which is the date the financial assets are received by the Trust.

Offsetting: Financial assets and financial liabilities are offset with the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognized amount in all situations and there is an intention to settle on a net basis or the asset and the liability will be settled simultaneously. Based on these criteria, the Trust does not have any financial assets and financial liabilities presented on a net basis.

C. Cash and Cash Equivalents

Cash includes currency on hand and demand deposits with banks and other financial institutions. *Cash* also includes other kinds of accounts which have the general characteristics of demand deposits where additional funds can be deposited or withdrawn at any time without prior notice or penalty.

Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of change in value due to interest rate, quoted price, or penalty on withdrawal. A debt security is classified as a cash equivalent if it meets these criteria and if it has an original time to maturity of three months or less from the date of acquisition.

D. Accounts Receivable

Accounts receivable are short-term receivables with an expected life of 90 days or less.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – continued

E. Ownership Interest in Receivables

The Trust does not recognize the receivables purchased from FCCC as an asset because the transaction does not transfer significantly all the risks and rewards. As such, FCCC continues to carry the receivables on its balance sheet and the Trust accounts for its *Ownership interest in receivables* as a secured loan with the Seller, which is recognized as an asset. Principal collections and losses reduce the carrying value of the *Ownership interest in receivables*.

F. Expected Credit Losses

A financial asset measured at amortized cost is assessed at each reporting date to determine whether a loss allowance for expected credit losses should be recorded. We evaluate credit losses using an expected credit loss impairment model, taking into consideration Series-specific enhancement in the form of overcollateralization, excess spread, and amounts deposited in a reserve account. Expected credit losses are incorporated into the initial valuation of *Ownership interest in receivables*.

G. Derivative Financial Instruments

The Trust enters into interest rate swaps to manage its exposure to fluctuations in interest rates. The Trust does not net its derivative position by counterparty for purposes of balance sheet presentation and disclosure. The Trust does, however, consider its net position for determining fair value.

The Trust has elected not to apply hedge accounting to any of its *Derivative financial instruments*. The Trust reports changes in the fair value of derivatives in *Net gains/(losses) on derivative instruments at fair value through profit or loss.*

H. Debt

The Trust obtains debt funding through the issuance of asset-backed securities in the capital markets. Debt is initially recorded at fair value. Transaction costs incurred to issue debt are recorded as a reduction of the carrying value of the debt.

I. Due to Seller

Due to seller initially represents the difference between the amount at which the Trust records the *Ownership interest in receivables*, plus the balance of any *Cash and cash equivalents* provided by FCCC as additional support at the date of the transaction, and the amount paid to FCCC on the date of the Trust's purchase of the *Ownership interest in receivables* ("Deferred purchase price"). Subsequent to initial recognition, the balance of *Due to seller* decreases as the Trust distributes cash to FCCC and increases or decreases by any residual operating profit or loss, after distribution to the beneficiary, during the period.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – continued

J. Income Taxes

The Trust is subject to taxes under the *Income Tax Act* (Canada) on the amount of its taxable income for the period and is permitted a deduction in computing its income for taxes for all amounts paid or payable to the Trust's beneficiary in determining income for tax purposes. For tax purposes, over the course of its existence, the Trust expects to allocate its income (before deducting distributions) to the beneficiary to a maximum of ten thousand Canadian dollars per year. The Trust does not expect to have income for tax purposes and accordingly does not record deferred tax assets or liabilities or provision for income taxes in its financial statements.

K. Net Interest Income

The Trust recognizes interest income and interest expense for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and allocating the interest income or interest expense over the expected life of the financial asset or financial liability (or group of financial assets or financial liabilities). The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

L. Fair Value Measurements

Fair value is the amount for which a financial asset could be exchanged or a financial liability settled between knowledgeable and willing parties in an arm's length transaction. Fair value is based on assumptions that market participants would use, including a consideration of non-performance risk. In determining fair value, the Trust uses various valuation methodologies and prioritizes the use of observable inputs. The availability of observable inputs varies for each instrument and depends on a variety of factors including the type of instrument, whether the instrument is actively traded, and other characteristics particular to the transaction. Where the Trust has the right to offset amounts owed to it by a third party against amounts it owes to that third party, the Trust considers only the net exposure in determining the adjustment for non-performance risk (either the third party's or the Trust's).

M. Accounting Standards Issued But Not Yet Adopted

Certain standards have been issued but are not applicable to the Trust's financial statements.

NOTE 3. RELATED PARTY TRANSACTIONS

Parties are considered to be related if they are jointly controlled or if one party has the ability to exercise control or significant influence over the other party in making financial or operational decisions. The related party transactions and balances described below occurred in the ordinary course of business and the nature and conditions of these transactions and balances are considered customary. The Trust is controlled by FCCC. FMCC is the indirect parent company of FCCC.

The following transactions are considered to be related party transactions:

- The Trust purchases an *Ownership interest in receivables* and other related assets in respect of those receivables from FCCC as part of the securitization transactions. These assets are pledged for the benefit of the noteholders of the related Series.
- *Accounts receivable* represents payments received by the Servicer that are in the process of being remitted to the Trust in the normal course of operations. Such amounts are remitted to the Trust in the following month.
- Changes in the net carrying amount of *Due to seller* resulting from the purchase of an *Ownership interest in receivables* from FCCC, net of any distributions paid to FCCC, and changes in the residual operating profit/(loss) that the Trust will distribute to FCCC no later than the liquidation date.
- For the securitization transactions in which FCCC holds a portion of the debt issued by the Trust, FCCC receives payments of interest monthly and principal at maturity.
- *Other accrued liabilities* represent amounts owed to FCCC by the Trust. The amounts owed are for expenses paid by FCCC that are reimbursed by the Trust generally on the following distribution date.

Statement of Comprehensive Income

The statement of comprehensive income includes the following amounts with related parties for the periods ended June 30 (in thousands):

	Second Quarter		First Half	
	2021	2022	2021	2022
Interest income	$ 150,748	$ 153,605	$ 286,987	$ 315,573
Interest expense	(1,110)	(776)	(2,221)	(1,676)
Change in due to seller	(132,385)	(158,720)	(250,510)	(341,538)

NOTE 3. RELATED PARTY TRANSACTIONS – continued

Balance Sheet

The balance sheet includes the following amounts with related parties as at (in thousands):

	December 31, 2021	June 30, 2022
Assets		
Accounts receivable	$ 32,947	$ 33,998
Ownership interest in receivables	6,550,058	6,678,179
Liabilities		
Other accrued liabilities	136	418
Interest payable	150	109
Debt	115,560	83,910
Due to seller	973,142	1,031,240

NOTE 4. CASH AND CASH EQUIVALENTS

The Trust held *Cash and cash equivalents* in the following accounts at (in thousands):

	December 31, 2021	June 30, 2022
Collection accounts	$ 293,123	$ 317,469
Reserve accounts	100,960	73,614
Total Cash and cash equivalents	$ 394,083	$ 391,083

All amounts are held in short-term investments that mature prior to each monthly distribution date. The following is an overview of the various accounts of the Trust and the associated restrictions.

Collection accounts - The Servicer is required to collect payments on the *Ownership interest in receivables* and deposit these collections into the Series-specific collection accounts within two business days of receipt from the obligors and processing by the Servicer. These amounts are available to cover payments of principal and interest on *Debt*, pay the deferred purchase price or expenses such as servicing fees, trustee fees and other expenses.

Reserve accounts - These are Series-specific accounts funded at the time of issuance of the relevant Series from the proceeds of the issuance. Amounts on deposit in the reserve account for a Series are available to cover any shortfalls in funds available to meet specific payments for that Series as outlined in the transaction documents and will not otherwise be released until that Series is paid in full.

NOTE 5. OWNERSHIP INTEREST IN RECEIVABLES

The following table summarizes the activity related to the *Ownership interest in receivables* (in thousands):

	For the Periods Ended	
	December 31, 2021	June 30, 2022
Balance at January 1	$ 5,987,617	$ 6,550,058
Acquisitions, net of discount	4,103,281	2,182,168
Principal collections	(3,941,237)	(2,279,472)
Accretion of discount (a)	400,397	225,425
Balance, end of period	$ 6,550,058	$ 6,678,179
Current portion	$ 3,214,112	$ 3,195,995
Non-current portion	3,335,946	3,482,184

(a) Includes the impact for any deals closed during the period.

NOTE 6. DEBT

The Trust issues asset-backed securities at fixed and variable interest rates. Principal and interest on these securities is payable on the 15th of the following month.

The following table summarizes the activity related to *Debt* (in thousands):

	For the Periods Ended	
	December 31, 2021	June 30, 2022
Balance at January 1	$ 5,441,458	$ 6,020,277
Issuances	3,881,560	2,034,000
Principal payments	(3,302,660)	(1,883,864)
Change in transaction costs	(81)	1,049
Balance, end of period	$ 6,020,277	$ 6,171,462
Current portion	$ 3,045,528	$ 3,073,375
Non-current portion	2,974,749	3,098,087

The Notes are secured by the Trust's Series-specific *Ownership interest in receivables* and other Trust assets. Each Series of Notes benefits from Series-specific enhancement in the form of overcollateralization, excess spread, and amounts deposited in a reserve account.

NOTE 6. DEBT – continued

The Series overcollateralization amount is the amount by which the aggregate principal balance of the Series receivables exceeds the principal balance of the Series Notes. Excess spread is the monthly excess of all principal and interest collections on the receivables after certain of the Trust payment obligations are satisfied (e.g., expenses and note interest). Excess spread is a component of available funds to make monthly principal payments on the Notes in order to reach the targeted overcollateralization amount.

NOTE 7. DUE TO SELLER

Due to seller represents a subordinated interest to the Series Notes in rights to collections on the Series *Ownership interest in receivables.*

The following table summarizes the activity related to *Due to seller* (in thousands):

	For the Periods Ended	
	December 31, 2021	June 30, 2022
Balance at January 1	$929,273	$ 973,142
Acquisition of ownership interest in receivables, net of discount	4,103,281	2,182,168
Debt issuances, net of fees	(3,879,627)	(2,034,000)
Point of sale contributions to reserve account	14,011	5,455
Transaction costs (reimbursed to)/paid by FCCC in period	(394)	79
Excess spread paid to seller	(691,964)	(437,142)
Change in due to seller	498,562	341,538
Total activity	43,869	58,098
Balance, end of period	$ 973,142	$ 1,031,240
The estimated current/non-current portion is as follows:		
Current portion	$ 449,025	447,948
Non-current portion	524,117	583,292

NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS

The Trust's derivatives are over-the-counter customized derivative transactions and are not exchange traded.

The following table summarizes the notional amount and estimated fair value of the *Derivative financial instruments* (in thousands):

	December 31, 2021		
	Notional	Fair Value Assets	Fair Value Liabilities
Interest rate swap contracts	$ 3,990,122	$ 25,733	$ 3,559
Current portion		$ 4,003	$ 3,523
Non-current portion		21,730	36
Total		$ 25,733	$ 3,559

	June 30, 2022		
	Notional	Fair Value Assets	Fair Value Liabilities
Interest rate swap contracts	$ 4,709,494	$ 110,763	$ 11
Current portion		$ 65,312	$ 11
Non-current portion		$ 45,451	$ -
Total		$ 110,763	$ 11

NOTE 9. NET INTEREST INCOME

The following table summarizes the components of *Net interest income* for the periods ended June 30 (in thousands):

	Second Quarter		First Half	
	2021	2022	2021	2022
Interest income				
Interest income from *Ownership interest in receivables*	$ 150,748	$ 153,605	$ 286,987	$ 315,573
Interest expense				
Interest expense to external parties	(18,482)	(30,974)	(36,543)	(52,407)
Interest expense to Seller	(1,110)	(776)	(2,221)	(1,676)
Total interest expense from *Debt*	(19,592)	(31,750)	(38,764)	(54,083)
Net interest income	$ 131,156	$ 121,855	$ 248,223	$ 261,490

The weighted-average effective yields on the *Ownership interest in receivables* were 10.3% and 8.5% for the three-month periods ended June 30, 2021 and June 30, 2022, respectively. The weighted-average effective yields on the *Ownership interest in receivables* were 9.9% and 9.0% for the six-month periods ended June 30, 2021 and June 30, 2022, respectively.

The weighted-average effective interest rates on the *Debt* were 1.5% and 1.9% for the three-month periods ended June 30, 2021 and June 30, 2022, respectively. The weighted-average effective interest rates on the *Debt* were 1.5% and 1.7% for the six-month periods ended June 30, 2021 and June 30, 2022, respectively.

NOTE 10. FAIR VALUE MEASUREMENTS

Cash and cash equivalents and *Derivative financial instruments* are presented in the Trust's financial statements on a recurring basis at fair value.

In measuring fair value, the Trust uses various valuation methodologies and prioritizes the use of observable inputs. The use of observable and unobservable inputs and their significance in measuring fair value are reflected in the Trust's fair value hierarchy assessment.

- Level 1 - inputs include quoted prices for identical instruments and are the most observable
- Level 2 - inputs include quoted prices for similar instruments and observable inputs such as interest rates, currency exchange rates and yield curves
- Level 3 - inputs include data not observable in the market and reflect management judgment about the assumptions market participants would use in pricing the instruments

NOTE 10. FAIR VALUE MEASUREMENTS – continued

The Trust reviews the inputs to the fair value measurements to ensure they are appropriately categorized within the fair value hierarchy. Transfers into and transfers out of the hierarchy levels are recognized as if they had taken place at the end of the reporting period. See item L in Note 2 for further details.

The valuation techniques used in estimating fair values are as follows:

Cash and cash equivalents - Included in *Cash and cash equivalents* are highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of change in value due to interest rate, quoted price, or penalty on withdrawal.

Accounts receivable, Other accrued liabilities and *Interest payable* - The carrying value of these items approximates fair value due to their short-term nature.

Ownership interest in receivables - The fair value is calculated by discounting anticipated future cash flows at a rate that incorporates the customer's credit risk. The fair value of *Ownership interest in receivables* is categorized within Level 2 of the hierarchy.

Derivative financial instruments - The fair value of derivatives is estimated using industry-standard valuation models such as a discounted cash flow. These models project future cash flows and discount the future amounts to a present value using market-based expectations for interest rates and the contractual terms of the derivative instruments. The discount rate used is the relevant interbank deposit rate (e.g., the Canadian Dollar Offered Rate ("CDOR")) plus an adjustment for non-performance risk. The adjustment reflects the full credit default swap ("CDS") spread applied to a net exposure, by counterparty, considering the master netting agreements. The Trust uses the counterparty's CDS spread when the derivatives are in a net asset position and FMCC's CDS spread when the derivatives are in a net liability position.

Debt - The Trust estimates fair value for purpose of disclosure using discounted cash flows and market-based expectations for interest rates, credit risk, and the contractual terms of the debt instruments. The principal payments are based on expected payment dates. The estimated fair value of *Debt* includes associated accrued interest. The fair value of *Debt* is categorized within Level 2 of the hierarchy.

Due to seller - As the Trust has a nominal amount of equity, the *Due to seller* balance represents the remaining net assets of the Trust that are due to FCCC. The estimated fair value of *Due to seller* is based on the estimated fair value of the remaining net assets. Due to the uncertain nature of the cash flows and an illiquid market for this type of instrument, the fair value assigned could vary significantly between market participants.

NOTE 10. FAIR VALUE MEASUREMENTS – continued

The following table summarizes the fair value of the Trust's financial instruments measured at fair value through profit or loss on a recurring basis at (in thousands):

	December 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets				
Cash and cash equivalents	$ -	$ 394,083	$ -	$ 394,083
Derivative financial instruments	-	25,733	-	25,733
Financial Liabilities				
Derivative financial instruments	$ -	$ 3,559	$ -	$ 3,559

	June 30, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets				
Cash and cash equivalents	$ -	$ 391,083	$ -	$ 391,083
Derivative financial instruments	-	110,763	-	110,763
Financial Liabilities				
Derivative financial instruments	$ -	$ 11	$ -	$ 11

The following table details the estimated fair value of financial instruments held by the Trust at (in thousands):

	December 31, 2021		June 30, 2022	
	Carrying Value	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Financial Assets				
<u>Financial assets at fair value through profit or loss</u>				
Cash and cash equivalents	$ 394,083	$ 394,083	$ 391,083	$ 391,083
Derivative financial instruments	25,733	25,733	110,763	110,763
<u>Financial assets at amortized cost</u>				
Accounts receivable	$ 32,947	$ 32,947	$ 33,998	$ 33,998
Ownership interest in receivables	6,550,058	6,843,080	6,678,179	6,868,307
Financial Liabilities				
<u>Financial liabilities at fair value through profit or loss</u>				
Derivative financial instruments	$ 3,559	$ 3,559	$ 11	$ 11
<u>Financial liabilities at amortized cost</u>				
Other accrued liabilities	$ 441	$ 441	$ 1,024	$ 1,024
Interest payable	5,402	5,402	10,286	10,286
Debt (excluding transaction costs)	6,024,373	5,998,257	6,174,510	6,063,420
Due to seller	973,142	1,288,184	1,031,240	1,329,410

NOTE 11. RISK MANAGEMENT

The Trust has exposure to the following risks from its use of financial instruments:

- Market risk – the possibility that changes in interest rates will adversely affect the Trust's cash flow and economic value;
- Credit risk – the possibility of loss from a customer's failure to make payments according to contract terms;
- Liquidity risk – the possibility that the Trust may be unable to meet all of its current and future obligations in a timely manner.

The financial instruments of the Trust include *Cash and cash equivalents*, *Accounts receivable, Ownership interest in receivables*, *Derivative financial instruments, Other accrued liabilities, Interest payable, Debt* and *Due to seller.*

The Trust is subject to the risk management strategies approved by the FMCC Asset Liability Committee ("ALCO") and the Ford Global Risk Management Committee ("GRMC"). The risk management policies are established to identify and analyze risks, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies are reviewed regularly to reflect changes in market conditions and business activities.

Market Risk

Given the unpredictability of financial markets, the Trust seeks to reduce volatility in its cash flow and economic value from changes in interest rates. The Trust uses various financial instruments, commonly referred to as derivatives, to manage market risks. The Trust does not engage in any trading, market-making or other speculative activities in the derivative markets.

Interest rate risk results principally from "re-pricing risk" or differences in the re-pricing characteristics of debt relative to the fixed-rate receivables. The Trust manages this risk by matching the re-pricing characteristics of its *Debt* to its fixed-rate *Ownership interest in receivables* within an established tolerance. The Trust's *Debt* and interest rate derivatives are exposed to interest rate risk related to movements in CDOR. The *Derivative financial instruments* primarily used in the Trust's interest rate risk management process are called interest rate swaps. The Trust's interest rate swaps are agreements with counterparties to receive a floating rate of interest in return for the Trust paying a fixed rate of interest, based upon a notional balance. The Trust enters into interest rate swap contracts to convert portions of floating-rate debt to fixed-rate debt to match the characteristics of its *Ownership interest in receivables.*

NOTE 11. RISK MANAGEMENT – continued

The interest rate risk management objective is to reduce volatility in cash flows and volatility in economic value from changes in interest rates. The Trust adheres to the risk tolerance established by the ALCO and the GRMC and stays within tolerance through the ALCO/GRMC risk management process. The ALCO/GRMC risk management process involves a short-term and a long-term evaluation of interest rate risk by considering potential impacts on near term cash flow as well as the economic value of interest rate-sensitive assets and liabilities.

Credit Risk

Credit risk is the possibility of loss resulting from a failure by a customer or other counterparty to make payments according to contractual terms. Credit risk may impact *Cash and cash equivalents*, *Ownership interest in receivables* and *Derivative financial instruments*.

Cash and Cash Equivalents

The carrying value of *Cash and cash equivalents* represents the maximum exposure to credit risk. Credit risk associated with *Cash and cash equivalents* is minimized substantially by ensuring these amounts are invested in highly-rated, short-term investments held at financial institutions.

Ownership Interest in Receivables

The performance of the Series receivables depends on a number of factors, including general economic conditions, unemployment levels, and the circumstances of individual obligors. The maximum exposure for *Ownership interest in receivables* is the carrying value of these receivables. Although credit risk has a significant impact on retail receivables, it is mitigated by the Trust having a first priority perfected security interest in the related financed vehicles. In the case of customer default, the value of the repossessed collateral provides a source of protection. Every reasonable effort is made to follow up on delinquent accounts and to keep accounts current. Repossession is considered as a last resort. A repossessed vehicle is sold and proceeds are applied to the amount owing on the account. The Servicer actively manages the credit risk on the retail conditional sale contracts portfolio to balance the levels of risk and return.

NOTE 11. RISK MANAGEMENT – continued

The majority of the Trust's *Ownership interest in receivables* is geographically diversified throughout Canada. There is no significant concentration of credit risk due to the fact that the Trust's *Ownership interest in receivables* is made up of large pools of receivables, with no individual receivable having a significant balance in relation to the outstanding balance of the Series receivables at the time of acquisition; varying vehicle makes, models and vehicle types; varying credit ratings of the individual customers; and varying interest rates and loan terms on the respective individual loans.

Estimated credit losses were included in the determination of the fair value of the *Ownership interest in receivables* on acquisition. Actual credit losses have not been significantly different from estimated credit losses.

Derivative Financial Instruments

The Trust's *Derivative financial instruments* include interest rate swap contracts. The Trust manages interest rate counterparty credit risks by adhering to the limits established by FCCC and entering into derivatives with unrelated counterparties that have long-term credit ratings of at least single-A. FCCC monitors the financial condition of the Trust's counterparties. The maximum loss the Trust would recognize if all counterparties failed to perform as contracted is represented by the aggregate fair value of derivative instruments in an asset position.

Liquidity Risk

Liquidity risk is the possibility of being unable to meet all current and future obligations in a timely manner. The Trust is engaged in financing asset-backed securities. The Trust is not exposed to liquidity risk apart from the risk that the Trust will not be able to satisfy its obligations because of its exposure to market and credit risks. The Trust's exposure to liquidity risk is managed primarily through the process of selecting receivables that are expected to generate cash flows on the *Ownership interest in receivables* sufficient to meet the payment schedule on the Notes.

The Trust expects to generate more proceeds than are necessary to fulfill its obligations, which consist of Series payments, expenses of the Trust and other amounts owing by the Trust. FCCC is entitled to receive these monthly excess cash flows, which are included in *Due to Seller*. Any remaining *Due to Seller* liability on the Series will be fulfilled after all other obligations of the Trust in accordance with the terms of the Series.

The Trust has access to additional funding sources through FCCC's committed retail capacity with several banks in Canada.