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

FORM 10-Q

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

For the quarterly period ended September 30, 2023

OR

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

For the transition period from ______ to

Commission File No. 001-14817

PACCAR Inc

(Exact name of registrant as specified in its charter)

Delaware	**91-0351110**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
777 - 106th Ave. N.E., Bellevue, WA	**98004**
(Address of principal executive offices)	**(Zip Code)**

(425) 468-7400
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common stock, $1 par value	PCAR	The Nasdaq Stock Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $1 par value — 523,075,842 shares as of October 30, 2023

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Consolidated Statements of Comprehensive Income (Unaudited)

(Millions, Except Per Share Amounts)

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	**2023**	2022
TRUCK, PARTS AND OTHER:				
Net sales and revenues	**$ 8,232.3**	$ 6,687.0	**$ 24,723.7**	$ 19,579.6
Cost of sales and revenues	**6,626.7**	5,689.3	**19,971.5**	16,785.8
Research and development	**103.5**	82.9	**302.0**	241.3
Selling, general and administrative	**143.6**	137.7	**448.3**	430.6
Interest and other (income) expense, net	**(16.3)**	(35.0)	**544.8**	(89.4)
	6,857.5	5,874.9	**21,266.6**	17,368.3
Truck, Parts and Other Income Before Income Taxes	**1,374.8**	812.1	**3,457.1**	2,211.3
FINANCIAL SERVICES:				
Interest and fees	**269.8**	160.4	**716.5**	443.6
Operating lease, rental and other revenues	**194.3**	211.5	**610.6**	667.0
Revenues	**464.1**	371.9	**1,327.1**	1,110.6
Interest and other borrowing expenses	**138.5**	55.8	**347.8**	142.0
Depreciation and other expenses	**146.9**	137.4	**427.0**	426.3
Selling, general and administrative	**38.7**	33.3	**110.9**	100.9
Provision for losses on receivables	**6.2**	(.8)	**14.1**	3.8
	330.3	225.7	**899.8**	673.0
Financial Services Income Before Income Taxes	**133.8**	146.2	**427.3**	437.6
Investment income	**80.8**	21.4	**192.5**	24.3
Total Income Before Income Taxes	**1,589.4**	979.7	**4,076.9**	2,673.2
Income taxes	**360.9**	210.3	**893.4**	582.9
Net Income	**$ 1,228.5**	$ 769.4	**$ 3,183.5**	$ 2,090.3
Net Income Per Share				
Basic	**$ 2.35**	$ 1.47	**$ 6.08**	$ 4.00
Diluted	**$ 2.34**	$ 1.47	**$ 6.07**	$ 3.99
Weighted Average Number of Common Shares Outstanding				
Basic	**524.1**	522.7	**523.8**	522.5
Diluted	**525.3**	523.3	**524.8**	523.3
Comprehensive Income	**$ 1,068.7**	$ 488.0	**$ 3,199.3**	$ 1,618.3

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets (Millions)

	September 30 2023 (Unaudited)	December 31 2022 *
ASSETS		
TRUCK, PARTS AND OTHER:		
Current Assets		
Cash and cash equivalents	**$ 5,696.9**	$ 4,544.7
Trade and other receivables, net (allowance for losses: 2023 - $.8, 2022 - $.6)	**2,303.6**	1,919.8
Marketable securities	**1,743.1**	1,614.2
Inventories, net	**2,622.4**	2,198.8
Other current assets	**710.5**	682.0
Total Truck, Parts and Other Current Assets	**13,076.5**	10,959.5
Equipment on operating leases, net	**146.7**	190.8
Property, plant and equipment, net	**3,613.7**	3,468.4
Other noncurrent assets, net	**1,642.3**	1,477.2
Total Truck, Parts and Other Assets	**18,479.2**	16,095.9
FINANCIAL SERVICES:		
Cash and cash equivalents	**209.4**	146.2
Finance and other receivables, net (allowance for losses: 2023 - $124.8, 2022 - $121.1)	**16,260.4**	13,791.9
Equipment on operating leases, net	**2,189.4**	2,612.5
Other assets	**901.1**	629.0
Total Financial Services Assets	**19,560.3**	17,179.6
	$ 38,039.5	$ 33,275.5

* The December 31, 2022 consolidated balance sheet has been derived from audited financial statements.

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets (Millions)

	September 30 2023 (Unaudited)	December 31 2022 *
LIABILITIES AND STOCKHOLDERS' EQUITY		
TRUCK, PARTS AND OTHER:		
Current Liabilities		
Accounts payable, accrued expenses and other	**$ 5,237.9**	$ 4,511.7
Dividend payable		974.6
Total Truck, Parts and Other Current Liabilities	**5,237.9**	5,486.3
Residual value guarantees and deferred revenues	**162.4**	209.2
Other liabilities	**1,971.0**	1,490.1
Total Truck, Parts and Other Liabilities	**7,371.3**	7,185.6
FINANCIAL SERVICES:		
Accounts payable, accrued expenses and other	**1,074.1**	826.8
Commercial paper and bank loans	**5,019.2**	3,604.9
Term notes	**7,906.4**	7,866.7
Deferred taxes and other liabilities	**645.4**	624.4
Total Financial Services Liabilities	**14,645.1**	12,922.8
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value - authorized 1.0 million shares, none issued		
Common stock, $1 par value - authorized 1.2 billion shares, issued 523.1 and 522.0 million shares	**523.1**	522.0
Additional paid-in capital	**258.3**	196.1
Treasury stock, at cost - .04 million and nil shares	**(3.1)**	
Retained earnings	**16,182.4**	13,402.4
Accumulated other comprehensive loss	**(937.6)**	(953.4)
Total Stockholders' Equity	**16,023.1**	13,167.1
	$ 38,039.5	$ 33,275.5

* The December 31, 2022 consolidated balance sheet has been derived from audited financial statements.

See Notes to Consolidated Financial Statements.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Millions)

	Nine Months Ended September 30	
	2023	2022
OPERATING ACTIVITIES:		
Net Income	**$ 3,183.5**	$ 2,090.3
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization:		
Property, plant and equipment	**308.2**	239.7
Equipment on operating leases and other	**370.2**	345.9
Provision for losses on financial services receivables	**14.1**	3.8
Other, net	**(115.1)**	(187.2)
Pension contributions	**(17.1)**	(34.3)
Change in operating assets and liabilities:		
Trade and other receivables	**(518.1)**	(561.5)
Wholesale receivables on new trucks	**(1,006.8)**	(577.8)
Inventories	**(450.0)**	(523.5)
Accounts payable and accrued expenses	**882.1**	937.0
Income taxes, warranty and other	**352.3**	45.8
Net Cash Provided by Operating Activities	**3,003.3**	1,778.2
INVESTING ACTIVITIES:		
Originations of retail loans and finance leases	**(4,557.4)**	(3,559.5)
Collections on retail loans and finance leases	**3,210.6**	2,932.3
Net increase in wholesale receivables on used equipment	**(15.2)**	(15.2)
Purchases of marketable debt securities	**(796.7)**	(723.8)
Proceeds from sales and maturities of marketable debt securities	**660.2**	591.5
Payments for property, plant and equipment	**(497.2)**	(393.7)
Acquisitions of equipment for operating leases	**(401.9)**	(688.1)
Proceeds from asset disposals	**449.0**	511.3
Other, net	**17.5**	26.7
Net Cash Used in Investing Activities	**(1,931.1)**	(1,318.5)
FINANCING ACTIVITIES:		
Payments of cash dividends	**(1,377.3)**	(875.9)
Purchases of treasury stock	**(3.1)**	(2.0)
Proceeds from stock compensation transactions	**43.1**	21.7
Net increase in commercial paper, short-term bank loans and other	**1,316.9**	227.3
Proceeds from term debt	**2,398.2**	2,302.7
Payments on term debt	**(2,218.3)**	(2,092.7)
Net Cash Provided by (Used in) Financing Activities	**159.5**	(418.9)
Effect of exchange rate changes on cash and cash equivalents	**(16.3)**	(145.6)
Net Increase (Decrease) in Cash and Cash Equivalents	**1,215.4**	(104.8)
Cash and cash equivalents at beginning of period	**4,690.9**	3,428.3
Cash and cash equivalents at end of period	**$ 5,906.3**	$ 3,323.5

See Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity (Unaudited)

(Millions, Except Per Share Amounts)

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	**2023**	2022
COMMON STOCK, $1 PAR VALUE:				
Balance at beginning of period	**$ 522.8**	$ 347.7	**$ 522.0**	$ 347.3
Stock compensation	**.3**	.1	**1.1**	.5
Balance at end of period	**523.1**	347.8	**523.1**	347.8
ADDITIONAL PAID-IN CAPITAL:				
Balance at beginning of period	**241.8**	174.0	**196.1**	142.0
Stock compensation	**16.5**	6.0	**62.2**	38.0
Balance at end of period	**258.3**	180.0	**258.3**	180.0
TREASURY STOCK, AT COST:				
Balance at beginning of period	**(3.0)**	(1.9)		
Purchases	**(.1)**	(.1)	**(3.1)**	(2.0)
Balance at end of period	**(3.1)**	(2.0)	**(3.1)**	(2.0)
RETAINED EARNINGS:				
Balance at beginning of period	**15,095.5**	13,109.9	**13,402.4**	12,025.8
Net income	**1,228.5**	769.4	**3,183.5**	2,090.3
Cash dividends declared on common stock	**(141.6)**	(118.5)	**(403.5)**	(355.3)
Balance at end of period	**16,182.4**	13,760.8	**16,182.4**	13,760.8
ACCUMULATED OTHER COMPREHENSIVE LOSS:				
Balance at beginning of period	**(777.8)**	(1,111.7)	**(953.4)**	(921.1)
Other comprehensive (loss) income	**(159.8)**	(281.4)	**15.8**	(472.0)
Balance at end of period	**(937.6)**	(1,393.1)	**(937.6)**	(1,393.1)
Total Stockholders' Equity	**$ 16,023.1**	$ 12,893.5	**$ 16,023.1**	$ 12,893.5
Cash dividends declared on common stock, per share	**$ .27**	$ .23	**$ .77**	$ .69

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

NOTE A - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023. For further information, refer to the consolidated financial statements and footnotes included in PACCAR Inc's (PACCAR or the Company) Annual Report on Form 10-K for the year ended December 31, 2022.

Earnings per Share: Basic earnings per common share are computed by dividing earnings by the weighted average number of common shares outstanding, plus the effect of any participating securities. Diluted earnings per common share are computed assuming that all potentially dilutive securities are converted into common shares under the treasury stock method.

On December 6, 2022, the Board of Directors declared a 50% common stock dividend which was paid on February 7, 2023, to stockholders of record on January 17, 2023, with fractional shares paid in cash. This resulted in the issuance of 174,035,361 additional shares and 411 fractional shares paid in cash. For all years presented, net income per share, weighted average number of common shares outstanding and cash dividends declared per share on common stock have been restated for the effect of the 50% dividend.

The dilutive and antidilutive options are shown separately in the table below:

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2023	2022	**2023**	2022
Additional shares	**1,211,900**	694,500	**1,049,000**	728,400
Antidilutive options	**32,400**	1,637,000	**911,700**	1,650,400

New Accounting Pronouncements: The Company adopted ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* on January 1, 2023, which had no material impact on the Company's consolidated financial statements.

The Financial Accounting Standards Board issued ASU 2022-03, *Fair Value Measurement (Topic 820)—Fair Value Measurement of Equity Securities Subject to Contractual Sale Restriction* in 2022. The Company plans on adopting this standard on January 1, 2024, and is not expected to have a material impact on the Company's consolidated financial statements.

NOTE B – Sales and Revenues

Truck, Parts and Other

The Company enters into sales contracts with customers associated with purchases of the Company's products and services including trucks, parts, product support, and other related services. Generally, the Company recognizes revenue for the amount of consideration it will receive for delivering a product or service to a customer. Revenue is recognized when the customer obtains control of the product or receives benefits of the service. The Company excludes sales taxes, value added taxes and other related taxes assessed by government agencies from revenue. There are no significant financing components included in product or services revenue since generally customers pay shortly after the products or services are transferred. In the Truck and Parts segment, when the Company grants extended payment terms on selected receivables and charges interest, interest income is recognized when earned.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

The following table disaggregates Truck, Parts and Other revenues by major sources:

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	**2023**	2022
Truck				
Truck sales	**$ 6,412.4**	$ 4,991.4	**$ 19,219.7**	$ 14,602.7
Revenues from extended warranties, operating leases and other	**224.0**	206.8	**658.0**	629.0
	6,636.4	5,198.2	**19,877.7**	15,231.7
Parts				
Parts sales	**1,533.5**	1,429.3	**4,660.4**	4,171.9
Revenues from dealer services and other	**48.7**	42.2	**143.7**	123.2
	1,582.2	1,471.5	**4,804.1**	4,295.1
Winch sales and other	**13.7**	17.3	**41.9**	52.8
Truck, Parts and Other sales and revenues	**$ 8,232.3**	$ 6,687.0	**$ 24,723.7**	$ 19,579.6

The Company recognizes truck and parts sales as revenues when control of the products is transferred to customers which generally occurs upon shipment, except for certain truck sales which are subject to a residual value guarantee (RVG) by the Company. The standard payment term for trucks and aftermarket parts is typically within 30 days, but the Company may grant extended payment terms on selected receivables. The Company recognizes revenue for the invoice amount adjusted for estimated sales incentives and returns. Sales incentives and returns are estimated based on historical experience and are adjusted to current period revenue when the most likely amount of consideration the Company expects to receive changes or becomes fixed. Truck and parts sales include a standard product warranty which is included in cost of sales. The Company has elected to treat delivery services as a fulfillment activity with revenues recognized when the customer obtains control of the product. Delivery revenue is included in revenues and the related costs are included in cost of sales. The Company is not disclosing truck order backlog, as a significant majority of the backlog has a duration of less than one year.

Truck sales with RVGs that allow customers the option to return their truck are accounted for as a sale when the customer does not have an economic incentive to return the truck to the Company, or as an operating lease when the customer does have an economic incentive to return the truck. The estimate of customers’ economic incentive to return the trucks is based on an analysis of historical guaranteed buyback value and estimated market value. When truck sales with RVGs are accounted for as a sale, revenue is recognized when the truck is transferred to the customer less an amount for expected returns. Expected return rates are estimated by using a historical return rate.

Aftermarket parts sales allow for returns which are estimated at the time of sale based on historical data. Parts dealer services and other revenues are recognized as services are performed.

The following table presents the balance sheet classification of the estimated value of the returned goods assets and the related return liabilities:

	September 30, 2023		December 31, 2022	
	ASSETS	**LIABILITIES**	ASSETS	LIABILITIES
Trucks				
Other current assets	**$ 165.8**		$ 183.0	
Accounts payable, accrued expenses and other		**$ 166.6**		$ 185.0
Other noncurrent assets, net	**201.8**		284.6	
Other liabilities		**211.9**		298.9
	$ 367.6	**$ 378.5**	$ 467.6	$ 483.9
Parts				
Other current assets	**$ 81.8**		$ 77.7	
Accounts payable, accrued expenses and other		**$ 208.6**		$ 181.4
	$ 81.8	**$ 208.6**	$ 77.7	$ 181.4

The Company’s total commitment to acquire trucks at a guaranteed value for contracts accounted for as a sale was $771.0 at September 30, 2023.

Revenues from extended warranties, operating leases and other include optional extended warranty and repair and maintenance (R&M) service contracts which can be purchased for periods generally ranging up to five years. The Company defers revenue based on stand-alone observable selling prices when it receives payments in advance and generally recognizes the revenue on a straight-line basis over the warranty or R&M contract periods. See Note F, Product Support Liabilities, in the Notes to the Consolidated Financial Statements for further information. Also included are truck sales with an RVG accounted for as an operating lease. A liability is created for the residual value obligation with the remainder of the proceeds recorded as deferred revenue. The deferred revenue is recognized on a straight-line basis over the guarantee period, which typically ranges from three to five years. Deferred revenue related to trucks sold with an RVG was $28.3 at September 30, 2023. The Company expects to recognize approximately $6.2 of the remaining deferred revenue in 2023, $15.7 in 2024, $4.4 in 2025, $1.4 in 2026 and $.6 in 2027. For the three and nine months ended September 30, 2023, total operating lease revenue from truck sales with RVGs was $11.7 and $47.1, respectively, compared to $29.3 and $79.2 for the three and nine months ended September 30, 2022. The Company's total commitment to acquire trucks at a guaranteed value for contracts accounted for as a lease was $134.1 at September 30, 2023.

Revenue from winch sales and other is primarily derived from the industrial winch business. Winch sales are recognized when the product is transferred to a customer, which generally occurs upon shipment. Also within this category are other revenues not attributable to a reportable segment.

Financial Services

The Company's Financial Services segment products include loans to customers collateralized by the vehicles being financed, finance leases for retail customers and dealers, dealer wholesale financing which includes floating-rate wholesale loans to PACCAR dealers for new and used trucks, and operating leases which include rentals on Company owned equipment. Interest income from finance and other receivables is recognized using the interest method. Certain loan origination costs are deferred and amortized to interest income over the expected life of the contracts using the straight-line method which approximates the interest method.

Operating lease rental revenue is recognized on a straight-line basis over the term of the lease. Customer contracts may include additional services such as excess mileage, repair and maintenance and other services on which revenue is recognized when earned. The Company's full-service lease arrangements bundle these additional services. Rents for full-service lease contracts are allocated between lease and non-lease components based on the relative stand-alone price of each component. Taxes, such as sales and use and value added, which are collected by the Company from a customer, are excluded from the measurement of lease income and expenses.

Recognition of interest income and rental revenue is suspended (put on non-accrual status) when the receivable becomes more than 90 days past the contractual due date or earlier if some other event causes the Company to determine that collection is not probable. Accordingly, no finance receivables more than 90 days past due were accruing interest at September 30, 2023 or December 31, 2022. Recognition is resumed if the receivable becomes current by the payment of all amounts due under the terms of the existing contract and collection of remaining amounts is considered probable (if not contractually modified) or if the customer makes scheduled payments for three months and collection of remaining amounts is considered probable (if contractually modified). Payments received while the finance receivable is on non-accrual status are applied to interest and principal in accordance with the contractual terms.

Finance leases are secured by the trucks and related equipment being leased and the lease terms generally range from three to five years depending on the type and use of the equipment. The lessee is required to either purchase the equipment or guarantee to the Company a stated residual value upon the disposition of the equipment at the end of the finance lease term.

Operating lease terms generally range from three to five years. At the end of the operating lease term, the lessee has the option to return the equipment to the Company or purchase the equipment at its fair market value.

The Company determines its estimate of the residual value of leased vehicles by considering the length of the lease term, the truck model, the expected usage of the truck and anticipated market demand. If the sales price of the truck at the end of the agreement differs from the Company's estimated residual value, a gain or loss will result. Future market conditions, changes in government regulations and other factors outside the Company's control could impact the ultimate sales price of trucks returned under these contracts. Residual values are reviewed regularly and adjusted if market conditions warrant.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

The following table summarizes Financial Services lease revenues by lease type:

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	**2023**	2022
Finance lease revenues	**$ 72.7**	$ 46.6	**$ 194.1**	$ 134.5
Operating lease revenues	**180.6**	192.4	**564.1**	595.7
Total lease revenues	**$ 253.3**	$ 239.0	**$ 758.2**	$ 730.2

NOTE C - Investments in Marketable Securities

Debt Securities

The Company's investments in marketable debt securities are classified as available-for-sale. These investments are stated at fair value and may include an allowance for credit losses. Changes in the allowance for credit losses are recognized in the current period earnings and any unrealized gains or losses, net of tax, are included as a component of accumulated other comprehensive income (loss) (AOCI).

The Company utilizes third-party pricing services for all of its marketable debt security valuations. The Company reviews the pricing methodology used by the third-party pricing services, including the manner employed to collect market information. On a quarterly basis, the Company also performs review and validation procedures on the pricing information received from the third-party providers. These procedures help ensure the fair value information used by the Company is determined in accordance with applicable accounting guidance.

The Company evaluates its investment in marketable debt securities at the end of each reporting period to determine if a decline in fair value is the result of credit losses or unrealized losses. In assessing credit losses, the Company considers the collectability of principal and interest payments by monitoring changes to issuers' credit ratings, specific credit events associated with individual issuers as well as the credit ratings of any financial guarantor. The Company considers its intent for selling the security and whether it is more likely than not the Company will be able to hold the security until the recovery of any credit losses and unrealized losses. Charges against the allowance for credit losses occur when a security with credit losses is sold or the Company no longer intends to hold that security.

Equity Securities

Marketable equity securities are traded on active exchanges and are measured at fair value. The realized and unrealized gains (losses) are recognized in investment income.

Marketable securities at September 30, 2023 and December 31, 2022 consisted of the following:

At September 30, 2023	COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
Marketable debt securities				
U.S. tax-exempt securities	**$ 293.0**		**$ 8.1**	**$ 284.9**
U.S. taxable municipal / non-U.S. provincial bonds	**249.3**		**9.0**	**240.3**
U.S. corporate securities	**354.4**		**10.2**	**344.2**
U.S. government and agency securities	**151.6**		**4.4**	**147.2**
Non-U.S. corporate securities	**510.4**		**14.3**	**496.1**
Non-U.S. government securities	**134.2**	**$ .2**	**2.2**	**132.2**
Other debt securities	**100.1**		**4.3**	**95.8**
Marketable equity securities	**10.0**		**7.6**	**2.4**
Total marketable securities	**$ 1,803.0**	**$ .2**	**$ 60.1**	**$ 1,743.1**

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

At December 31, 2022	COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
Marketable debt securities				
U.S. tax-exempt securities	$ 452.8	$ .5	$ 8.2	$ 445.1
U.S. taxable municipal / non-U.S. provincial bonds	191.6		10.8	180.8
U.S. corporate securities	262.5	.1	11.6	251.0
U.S. government and agency securities	118.0	.1	3.1	115.0
Non-U.S. corporate securities	467.9		17.9	450.0
Non-U.S. government securities	78.9	.2	2.7	76.4
Other debt securities	99.4		4.7	94.7
Marketable equity securities	10.0		8.8	1.2
Total marketable securities	$ 1,681.1	$ .9	$ 67.8	$ 1,614.2

The cost of marketable debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Amortization, accretion, interest and dividend income and realized gains and losses are included in investment income. The cost of securities sold is based on the specific identification method. Gross realized gains were $.9 and $.5 and gross realized losses were $3.6 and $1.5 for the nine months periods ended September 30, 2023 and 2022, respectively.

Net realized gains on marketable equity securities were $1.1 and nil for the nine months periods ending September 30, 2023 and 2022, respectively.

Marketable debt securities with continuous unrealized losses and their related fair values were as follows:

	September 30, 2023		December 31, 2022	
	LESS THAN TWELVE MONTHS	**TWELVE MONTHS OR GREATER**	LESS THAN TWELVE MONTHS	TWELVE MONTHS OR GREATER
Unrealized losses	**$ 11.7**	**$ 40.8**	$ 21.5	$ 37.5
Fair value	**706.6**	**850.1**	889.2	608.4

The unrealized losses on marketable debt securities above were due to higher yields on certain securities. The Company did not identify any indicators of a credit loss in its assessments. Accordingly, no allowance for credit losses was recorded at September 30, 2023 and December 31, 2022. The Company does not currently intend, and it is more likely than not that it will not be required to sell the investment securities before recovery of the unrealized losses. The Company expects that the contractual principal and interest will be received on the investment securities.

Contractual maturities of marketable debt securities at September 30, 2023 were as follows:

	AMORTIZED COST	FAIR VALUE
Within one year	$ 449.0	$ 441.5
One to five years	1,330.9	1,287.6
Six to ten years	.9	.9
More than ten years	12.2	10.7
	$ 1,793.0	$ 1,740.7

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

NOTE D - Inventories

Inventories are stated at the lower of cost or market. Cost of inventories is determined principally by the first-in, first-out (FIFO) method.

Inventories include the following:

	September 30 2023	December 31 2022
Finished products	**$ 1,102.2**	$ 871.8
Work in process and raw materials	**1,520.2**	1,327.0
	$ 2,622.4	$ 2,198.8

NOTE E - Finance and Other Receivables

Finance and other receivables include the following:

	September 30 2023	December 31 2022
Loans	**$ 8,022.1**	$ 7,229.1
Finance leases	**4,428.6**	3,786.4
Dealer wholesale financing	**3,783.2**	2,772.1
Operating lease receivables and other	**151.3**	125.4
	16,385.2	13,913.0
Less allowance for losses:		
Loans and leases	**(119.6)**	(114.8)
Dealer wholesale financing	**(2.6)**	(3.4)
Operating lease receivables and other	**(2.6)**	(2.9)
	$ 16,260.4	$ 13,791.9

Included in Finance and other receivables, net on the Consolidated Balance Sheets is accrued interest receivable (net of allowance for credit losses) of $73.6 and $44.1 as of September 30, 2023 and December 31, 2022, respectively. The net activity of dealer direct loans and dealer wholesale financing on new trucks is shown in the operating section of the Condensed Consolidated Statements of Cash Flows since those receivables finance the sale of Company inventory.

Allowance for Credit Losses

The Company continuously monitors the payment performance of its finance receivables. For large retail finance customers and dealers with wholesale financing, the Company regularly reviews their financial statements and makes site visits and phone contact as appropriate. If the Company becomes aware of circumstances that could cause those customers or dealers to face financial difficulty, whether or not they are past due, the customers are placed on a watch list.

The Company modifies loans and finance leases in the normal course of its Financial Services operations. The Company may modify loans and finance leases for commercial reasons or for credit reasons. Modifications for commercial reasons are changes to contract terms for customers that are not considered to be in financial difficulty. Insignificant delays are modifications extending terms up to three months for customers experiencing some short-term financial stress, but not considered to be in financial difficulty. Modifications for credit reasons are changes to contract terms for customers considered to be in financial difficulty. The Company's modifications typically result in granting more time to pay the contractual amounts owed and charging a fee and interest for the term of the modification.

When considering whether to modify customer accounts for credit reasons, the Company evaluates the creditworthiness of the customers and modifies those accounts that the Company considers likely to perform under the modified terms. The Company does not typically grant credit modifications for customers that do not meet minimum underwriting standards since the Company normally repossesses the financed equipment in these circumstances.

On average, commercial and other modifications extended contractual terms by approximately four months in 2023 and three months in 2022, and did not have a significant effect on the weighted average term or interest rate of the total portfolio at September 30, 2023 and December 31, 2022.

The Company has developed a systematic methodology for determining the allowance for credit losses for its two portfolio segments, retail and wholesale. The retail segment consists of retail loans and sales-type finance leases, net of unearned interest. The wholesale segment consists of truck inventory financing loans to dealers that are collateralized by trucks and other collateral. The wholesale segment generally has less risk than the retail segment. Wholesale receivables generally are shorter in duration than retail receivables, and the Company requires periodic reporting of the wholesale dealer's financial condition, conducts periodic audits of the trucks being financed and in many cases, obtains guarantees or other security such as dealership assets. In determining the allowance for credit losses, retail loans and finance leases are evaluated together since they relate to a similar customer base, their contractual terms require regular payment of principal and interest, generally over three to five years, and they are secured by the same type of collateral. The allowance for credit losses consists of both specific and general reserves.

The Company individually evaluates certain finance receivables for expected credit losses. Finance receivables that are evaluated individually consist of all wholesale accounts and certain large retail accounts with past due balances or otherwise determined to be at a higher risk of loss. In general, finance receivables that are 90 days past due are placed on non-accrual status. Finance receivables on non-accrual status which have been performing for 90 consecutive days are placed on accrual status if it is deemed probable that the Company will collect all principal and interest payments.

Individually evaluated receivables on non-accrual status are generally considered collateral dependent. Large balance retail and all wholesale receivables on non-accrual status are individually evaluated to determine the appropriate reserve for losses. The determination of reserves for large balance receivables on non-accrual status considers the fair value of the associated collateral. When the underlying collateral fair value exceeds the Company's amortized cost basis, no reserve is recorded. Small balance receivables on non-accrual status with similar risk characteristics are evaluated as a separate pool to determine the appropriate reserve for losses using the historical loss information discussed below.

The Company evaluates finance receivables that are not individually evaluated and share similar risk characteristics on a collective basis and determines the general allowance for credit losses for both retail and wholesale receivables based on historical loss information, using past due account data, current market conditions, and expected changes in future macroeconomic conditions that affect collectability. Historical credit loss data provides relevant information of expected credit losses. The historical information used includes assumptions regarding the likelihood of collecting current and past due accounts, repossession rates, and the recovery rate on the underlying collateral based on used truck values and other pledged collateral or recourse.

The Company has developed a range of loss estimates for each of its country portfolios based on historical experience, taking into account loss frequency and severity in both strong and weak truck market conditions. A projection is made of the range of estimated credit losses inherent in the portfolio from which an amount is determined based on current market conditions and other factors impacting the creditworthiness of the Company's borrowers and their ability to repay. Adjustments to historical loss information are made for changes in forecasted economic conditions that are specific to the industry and markets in which the Company conducts business. The Company utilizes economic forecasts from third-party sources and determines expected losses based on historical experience under similar market conditions. After determining the appropriate level of the allowance for credit losses, a provision for losses on finance receivables is charged to income as necessary to reflect management's estimate of expected credit losses, net of recoveries, inherent in the portfolio.

In determining the fair value of the collateral, the Company uses a pricing matrix and categorizes the fair value as Level 2 in the hierarchy of fair value measurement. The pricing matrix is reviewed quarterly and updated as appropriate. The pricing matrix considers the make, model and year of the equipment as well as recent sales prices of comparable equipment sold individually, which is the lowest unit of account, through wholesale channels to the Company's dealers (principal market). The fair value of the collateral also considers the overall condition of the equipment.

Accounts are charged off against the allowance for credit losses when, in the judgment of management, they are considered uncollectible, which generally occurs upon repossession of the collateral. Typically the timing between the repossession and charge-off is not significant. In cases where repossession is delayed (e.g., for legal proceedings), the Company records a partial charge-off. The charge-off is determined by comparing the fair value of the collateral, less cost to sell, to the amortized cost basis.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

For the following credit quality disclosures, finance receivables are classified into two portfolio segments, wholesale and retail. The retail portfolio is further segmented into dealer retail and customer retail. The dealer wholesale segment consists of truck inventory financing to PACCAR dealers. The dealer retail segment consists of loans and leases to participating dealers and franchises that use the proceeds to fund customers' acquisition of commercial vehicles and related equipment. The customer retail segment consists of loans and leases directly to customers for the acquisition of commercial vehicles and related equipment. Customer retail receivables are further segregated between fleet and owner/operator classes. The fleet class consists of customer retail accounts operating five or more trucks. All other customer retail accounts are considered owner/operator. These two classes have similar measurement attributes, risk characteristics and common methods to monitor and assess credit risk.

The allowance for credit losses is summarized as follows:

	2023				
	DEALER		CUSTOMER		
	WHOLESALE	RETAIL	RETAIL	OTHER*	TOTAL
Balance at January 1	**$ 3.4**	**$ 2.2**	**$ 112.6**	**$ 2.9**	**$ 121.1**
Provision for losses	**(.8)**	**(.8)**	**16.3**	**(.6)**	**14.1**
Charge-offs			**(16.0)**	**(1.2)**	**(17.2)**
Recoveries			**4.3**	**1.3**	**5.6**
Currency translation and other			**1.0**	**.2**	**1.2**
Balance at September 30	**$ 2.6**	**$ 1.4**	**$ 118.2**	**$ 2.6**	**$ 124.8**

	2022				
	DEALER		CUSTOMER		
	WHOLESALE	RETAIL	RETAIL	OTHER*	TOTAL
Balance at January 1	$ 3.3	$ 7.1	$ 104.4	$ 2.1	$ 116.9
Provision for losses	.4	(3.3)	8.1	(1.4)	3.8
Charge-offs			(6.3)	(.1)	(6.4)
Recoveries	.1		5.2	1.8	7.1
Currency translation and other	(.3)		(3.9)	.7	(3.5)
Balance at September 30	$ 3.5	$ 3.8	$ 107.5	$ 3.1	$ 117.9

* Operating leases and other trade receivables.

Credit Quality

The Company's customers are principally concentrated in the transportation industry in North America, Europe, Australia and Brasil. The Company's portfolio assets are diversified over a large number of customers and dealers with no single customer or dealer balances representing over 5% of the total portfolio assets. The Company retains as collateral a security interest in the related equipment.

At the inception of each contract, the Company considers the credit risk based on a variety of credit quality factors including prior payment experience, customer financial information, credit-rating agency ratings, loan-to-value ratios and other internal metrics. On an ongoing basis, the Company monitors credit quality based on past due status and collection experience as there is a meaningful correlation between the past due status of customers and the risk of loss.

The Company has three credit quality indicators: performing, watch and at-risk. Performing accounts pay in accordance with the contractual terms and are not considered high-risk. Watch accounts include accounts 31 to 90 days past due and large accounts that are performing but are considered to be high-risk. Watch accounts are not collateral dependent. At-risk accounts are collateral dependent, including accounts over 90 days past due and other accounts on non-accrual status.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

The tables below summarize the amortized cost basis of the Company's finance receivables within each credit quality indicator by year of origination and portfolio class and current period gross charge-offs of the Company's finance receivables by year of origination and portfolio class.

At September 30, 2023	REVOLVING LOANS	2023	2022	2021	2020	2019	PRIOR	TOTAL
Amortized cost:								
Dealer:								
Wholesale:								
Performing	$ 3,782.1							$ 3,782.1
Watch	1.1							1.1
	$ 3,783.2							$ 3,783.2
Retail:								
Performing	$ 164.3	$ 556.1	$ 542.8	$ 315.3	$ 177.2	$ 182.7	$ 152.5	$ 2,090.9
	$ 164.3	$ 556.1	$ 542.8	$ 315.3	$ 177.2	$ 182.7	$ 152.5	$ 2,090.9
Total dealer	$ 3,947.5	$ 556.1	$ 542.8	$ 315.3	$ 177.2	$ 182.7	$ 152.5	$ 5,874.1
Customer retail:								
Fleet:								
Performing		$ 3,460.9	$ 2,866.1	$ 1,455.3	$ 836.6	$ 294.9	$ 91.8	$ 9,005.6
Watch		34.4	14.9	2.6	1.0	1.1	.9	54.9
At-risk		8.6	23.2	11.5	6.0	11.6	.3	61.2
		$ 3,503.9	$ 2,904.2	$ 1,469.4	$ 843.6	$ 307.6	$ 93.0	$ 9,121.7
Owner/operator:								
Performing		$ 325.4	$ 357.4	$ 293.9	$ 167.2	$ 66.6	$ 15.1	$ 1,225.6
Watch		.3	2.1	1.8	1.1	.1	.2	5.6
At-risk		.1	1.5	2.2	2.1	.7	.3	6.9
		$ 325.8	$ 361.0	$ 297.9	$ 170.4	$ 67.4	$ 15.6	$ 1,238.1
Total customer retail		$ 3,829.7	$ 3,265.2	$ 1,767.3	$ 1,014.0	$ 375.0	$ 108.6	$ 10,359.8
Total	$ 3,947.5	$ 4,385.8	$ 3,808.0	$ 2,082.6	$ 1,191.2	$ 557.7	$ 261.1	$ 16,233.9

At September 30, 2023	REVOLVING LOANS	2023	2022	2021	2020	2019	PRIOR	TOTAL
Gross charge-offs:								
Customer retail:								
Fleet			$ 4.4	$ 4.4	$ 3.6	$ .4	$ .4	$ 13.2
Owner/operator		$ .2	1.0	1.0	.3		.3	2.8
Total		$ .2	$ 5.4	$ 5.4	$ 3.9	$ .4	$ .7	$ 16.0

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

At December 31, 2022	REVOLVING LOANS	2022	2021	2020	2019	2018	PRIOR	TOTAL
Amortized cost:								
Dealer:								
Wholesale:								
Performing	$ 2,766.0							$ 2,766.0
Watch	6.1							6.1
	$ 2,772.1							$ 2,772.1
Retail:								
Performing	$ 206.2	$ 609.7	$ 348.6	$ 223.1	$ 241.7	$ 120.8	$ 121.1	$ 1,871.2
At-risk							.7	.7
	$ 206.2	$ 609.7	$ 348.6	$ 223.1	$ 241.7	$ 120.8	$ 121.8	$ 1,871.9
Total dealer	$ 2,978.3	$ 609.7	$ 348.6	$ 223.1	$ 241.7	$ 120.8	$ 121.8	$ 4,644.0
Customer retail:								
Fleet:								
Performing		$ 3,558.0	$ 1,981.9	$ 1,306.5	$ 603.7	$ 203.4	$ 65.6	$ 7,719.1
Watch		7.5	7.3	1.8	3.4	2.4	.5	22.9
At-risk		6.7	17.7	18.8	17.2	5.9	.5	66.8
		$ 3,572.2	$ 2,006.9	$ 1,327.1	$ 624.3	$ 211.7	$ 66.6	$ 7,808.8
Owner/operator:								
Performing		$ 478.2	$ 425.9	$ 251.2	$ 120.9	$ 45.3	$ 6.0	$ 1,327.5
Watch		1.8	.9	.4	.3		.1	3.5
At-risk		.4	.8	1.1	.8	.7		3.8
		$ 480.4	$ 427.6	$ 252.7	$ 122.0	$ 46.0	$ 6.1	$ 1,334.8
Total customer retail		$ 4,052.6	$ 2,434.5	$ 1,579.8	$ 746.3	$ 257.7	$ 72.7	$ 9,143.6
Total	$ 2,978.3	$ 4,662.3	$ 2,783.1	$ 1,802.9	$ 988.0	$ 378.5	$ 194.5	$ 13,787.6

The tables below summarize the Company's finance receivables by aging category. In determining past due status, the Company considers the entire contractual account balance past due when any installment is over 30 days past due. Substantially all customer accounts that were greater than 30 days past due prior to credit modification became current upon modification for aging purposes.

	DEALER		**CUSTOMER RETAIL**		
At September 30, 2023	**WHOLESALE**	**RETAIL**	**FLEET**	**OWNER/ OPERATOR**	**TOTAL**
Current and up to 30 days past due	**$ 3,783.2**	**$ 2,090.9**	**$ 9,034.9**	**$ 1,228.3**	**$ 16,137.3**
31 – 60 days past due			**46.1**	**4.8**	**50.9**
Greater than 60 days past due			**40.7**	**5.0**	**45.7**
	$ 3,783.2	**$ 2,090.9**	**$ 9,121.7**	**$ 1,238.1**	**$ 16,233.9**

	DEALER		CUSTOMER RETAIL		
At December 31, 2022	WHOLESALE	RETAIL	FLEET	OWNER/ OPERATOR	TOTAL
Current and up to 30 days past due	$ 2,772.1	$ 1,871.9	$ 7,768.5	$ 1,329.1	$ 13,741.6
31 – 60 days past due			14.7	3.1	17.8
Greater than 60 days past due			25.6	2.6	28.2
	$ 2,772.1	$ 1,871.9	$ 7,808.8	$ 1,334.8	$ 13,787.6

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

The amortized cost basis of finance receivables that are on non-accrual status was as follows:

	DEALER		CUSTOMER RETAIL		
At September 30, 2023	**WHOLESALE**	**RETAIL**	**FLEET**	**OWNER/ OPERATOR**	**TOTAL**
Amortized cost basis with a specific reserve			**$ 27.9**	**$ 6.2**	**$ 34.1**
Amortized cost basis with no specific reserve			**26.7**	**.5**	**27.2**
Total			**$ 54.6**	**$ 6.7**	**$ 61.3**

	DEALER		CUSTOMER RETAIL		
At December 31, 2022	WHOLESALE	RETAIL	FLEET	OWNER/ OPERATOR	TOTAL
Amortized cost basis with a specific reserve			$ 33.9	$ 3.6	$ 37.5
Amortized cost basis with no specific reserve		$ .7	16.2		16.9
Total		$ .7	$ 50.1	$ 3.6	$ 54.4

Interest income recognized on a cash basis for finance receivables that are on non-accrual status was as follows:

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2023	2022	**2023**	2022
Interest income recognized:				
Dealer:				
Retail				$ .1
Customer retail:				
Fleet	**$ .4**	$ .6	**$ 1.0**	2.0
Owner/operator	**.1**	.1	**.2**	.2
	$ .5	$ .7	**$ 1.2**	$ 2.3

Customers Experiencing Financial Difficulty

The Company adopted ASU 2022-02 on January 1, 2023. The amortized cost basis of finance receivables modified for fleet customers experiencing financial difficulty was $.6 and $7.2 for the three and nine months ended September 30, 2023, respectively. The amortized cost basis of finance receivables modified for owner/operator customers experiencing financial difficulty was nil for the three and nine months ended September 30, 2023. Total modifications with customers experiencing financial difficulty represented nil and .1% of the total retail portfolio on an annualized basis for the three and nine months ended September 30, 2023, respectively. The modifications provided term extensions and granted customers additional time to pay, primarily in Brasil. The financial effects of the term extensions added a weighted-average of 5 and 19 months to the life of the modified contracts for the three and nine months ended September 30, 2023, respectively. The effect on the allowance for credit losses from such modifications was not significant for the three and nine months ended September 30, 2023.

All of the finance receivables modified with customers experiencing financial difficulty are current. There were no finance receivables modified with customers experiencing financial difficulty on or after January 1, 2023 that had a payment default in the nine months ended September 30, 2023.

Troubled Debt Restructuring Disclosures Prior to Adoption of ASU 2022-02

Prior to the adoption of ASU 2022-02, when considering whether to modify customer accounts for credit reasons, the Company evaluated the creditworthiness of the customers and modified those accounts that the Company considered likely to perform under the modified terms. When the Company modified a loan or finance lease for credit reasons and granted a concession, the modification was classified as a troubled debt restructuring (TDR). The Company did not typically grant credit modifications for customers that did not meet minimum underwriting standards since the Company normally repossesses the financed equipment in those circumstances. When such modifications did occur, they were considered TDRs.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

The balance of TDRs was $31.1 and $34.2 at December 31, 2022 and September 30, 2022, respectively. At modification date, the pre-modification and post-modification amortized cost basis balances for finance receivables modified during the period by portfolio class were as follows:

	Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
	AMORTIZED COST BASIS		AMORTIZED COST BASIS	
	PRE-MODIFICATION	POST-MODIFICATION	PRE-MODIFICATION	POST-MODIFICATION
Fleet	$ 1.6	$ 1.6	$ 9.7	$ 9.7

The effect on the allowance for credit losses from such modifications was not significant at September 30, 2022.

Repossessions

When the Company determines a customer is not likely to meet its contractual commitments, the Company repossesses the vehicles which serve as collateral for the loans, finance leases and equipment under operating leases. The Company records the vehicles as used truck inventory included in Financial Services Other assets on the Consolidated Balance Sheets. The balance of repossessed inventory at September 30, 2023 and December 31, 2022 was $17.2 and $9.2, respectively. Proceeds from the sales of repossessed assets were $17.7 and $16.1 for the nine months ended September 30, 2023 and 2022, respectively. These amounts are included in Proceeds from asset disposals in the Condensed Consolidated Statements of Cash Flows. Write-downs of repossessed equipment on operating leases are recorded as impairments and included in Financial Services Depreciation and other expenses on the Consolidated Statements of Comprehensive Income.

NOTE F - Product Support Liabilities

Product support liabilities include estimated future payments related to product warranties and deferred revenues on optional extended warranties and R&M contracts. The Company generally offers one year warranties covering most of its vehicles and related aftermarket parts. For vehicles equipped with engines manufactured by PACCAR, the Company generally offers two year warranties on the engine. Specific terms and conditions vary depending on the product and the country of sale. Optional extended warranty and R&M contracts can be purchased for periods which generally range up to five years. Warranty expenses and reserves are estimated and recorded at the time products or contracts are sold based on historical and current data and reasonable expectations for the future regarding the frequency and cost of warranty claims, net of recoveries. The Company periodically assesses the adequacy of its recorded liabilities and adjusts them as appropriate to reflect actual experience. Revenue from extended warranty and R&M contracts is deferred and recognized to income generally on a straight-line basis over the contract period. Warranty and R&M costs on these contracts are recognized as incurred.

Changes in product support liabilities are summarized as follows:

WARRANTY RESERVES	**2023**	2022
Balance at January 1	**$ 437.7**	$ 344.3
Cost accruals	**484.1**	269.4
Payments	**(459.9)**	(302.9)
Change in estimates for pre-existing warranties	**186.1**	80.6
Currency translation and other	**(2.6)**	(23.2)
Balance at September 30	**$ 645.4**	$ 368.2

DEFERRED REVENUES ON EXTENDED WARRANTIES AND R&M CONTRACTS	**2023**	2022
Balance at January 1	**$ 904.9**	$ 775.2
Deferred revenues	**583.5**	439.7
Revenues recognized	**(339.7)**	(352.7)
Currency translation	**(5.4)**	(56.7)
Balance at September 30	**$ 1,143.3**	$ 805.5

The Company expects to recognize approximately $85.5 of the remaining deferred revenue on extended warranties and R&M contracts in 2023, $310.3 in 2024, $315.8 in 2025, $241.7 in 2026, $119.3 in 2027 and $70.7 thereafter.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

NOTE G - Stockholders' Equity

Comprehensive Income

The components of comprehensive income are as follow:

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	**2023**	2022
Net income	**$ 1,228.5**	$ 769.4	**$ 3,183.5**	$ 2,090.3
Other comprehensive income (loss) (OCI):				
Unrealized gains (losses) on derivative contracts	**38.6**	24.3	**(23.9)**	61.4
Tax effect	**(8.8)**	(6.3)	**5.1**	(17.2)
	29.8	18.0	**(18.8)**	44.2
Unrealized gains (losses) on marketable debt securities	**2.5**	(22.7)	**6.2**	(67.2)
Tax effect	**(.7)**	5.5	**(1.6)**	16.6
	1.8	(17.2)	**4.6**	(50.6)
Pension plans	**1.4**	20.2	**4.7**	50.4
Tax effect	**(.7)**	(5.1)	**(1.1)**	(12.6)
	.7	15.1	**3.6**	37.8
Foreign currency translation (losses) gains	**(192.1)**	(297.3)	**26.4**	(503.4)
Net other comprehensive (loss) income	**(159.8)**	(281.4)	**15.8**	(472.0)
Comprehensive income	**$ 1,068.7**	$ 488.0	**$ 3,199.3**	$ 1,618.3

Accumulated Other Comprehensive Income (Loss)

The components of AOCI and the changes in AOCI, net of tax, included in the Consolidated Balance Sheets and the Consolidated Statements of Stockholders' Equity consisted of the following:

Three Months Ended September 30, 2023	**DERIVATIVE CONTRACTS**	**MARKETABLE DEBT SECURITIES**	**PENSION PLANS**	**FOREIGN CURRENCY TRANSLATION**	**TOTAL**
Balance at July 1, 2023	**$ (13.5)**	**$ (40.8)**	**$ (108.0)**	**$ (615.5)**	**$ (777.8)**
Recorded into AOCI	**57.5**	**2.2**	**(.5)**	**(192.1)**	**(132.9)**
Reclassified out of AOCI	**(27.7)**	**(.4)**	**1.2**		**(26.9)**
Net other comprehensive income (loss)	**29.8**	**1.8**	**.7**	**(192.1)**	**(159.8)**
Balance at September 30, 2023	**$ 16.3**	**$ (39.0)**	**$ (107.3)**	**$ (807.6)**	**$ (937.6)**

Three Months Ended September 30, 2022	DERIVATIVE CONTRACTS	MARKETABLE DEBT SECURITIES	PENSION PLANS	FOREIGN CURRENCY TRANSLATION	TOTAL
Balance at July 1, 2022	$ 12.7	$ (34.5)	$ (247.1)	$ (842.8)	$ (1,111.7)
Recorded into AOCI	56.2	(16.9)	9.5	(297.3)	(248.5)
Reclassified out of AOCI	(38.2)	(.3)	5.6		(32.9)
Net other comprehensive income (loss)	18.0	(17.2)	15.1	(297.3)	(281.4)
Balance at September 30, 2022	$ 30.7	$ (51.7)	$ (232.0)	$ (1,140.1)	$ (1,393.1)

Nine Months Ended September 30, 2023	**DERIVATIVE CONTRACTS**	**MARKETABLE DEBT SECURITIES**	**PENSION PLANS**	**FOREIGN CURRENCY TRANSLATION**	**TOTAL**
Balance at January 1, 2023	**$ 35.1**	**$ (43.6)**	**$ (110.9)**	**$ (834.0)**	**$ (953.4)**
Recorded into AOCI	**(55.8)**	**6.7**	**.1**	**26.4**	**(22.6)**
Reclassified out of AOCI	**37.0**	**(2.1)**	**3.5**		**38.4**
Net other comprehensive (loss) income	**(18.8)**	**4.6**	**3.6**	**26.4**	**15.8**
Balance at September 30, 2023	**$ 16.3**	**$ (39.0)**	**$ (107.3)**	**$ (807.6)**	**$ (937.6)**

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Nine Months Ended September 30, 2022	DERIVATIVE CONTRACTS	MARKETABLE DEBT SECURITIES	PENSION PLANS	FOREIGN CURRENCY TRANSLATION	TOTAL
Balance at January 1, 2022	$ (13.5)	$ (1.1)	$ (269.8)	$ (636.7)	$ (921.1)
Recorded into AOCI	90.7	(50.0)	20.9	(503.4)	(441.8)
Reclassified out of AOCI	(46.5)	(.6)	16.9		(30.2)
Net other comprehensive income (loss)	44.2	(50.6)	37.8	(503.4)	(472.0)
Balance at September 30, 2022	$ 30.7	$ (51.7)	$ (232.0)	$ (1,140.1)	$ (1,393.1)

Reclassifications out of AOCI were as follows:

AOCI COMPONENTS	LINE ITEM IN THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	Three Months Ended September 30 2023	2022
Unrealized losses (gains) on derivative contracts:			
Truck, Parts and Other			
Foreign-exchange contracts	Net sales and revenues	**$ 13.2**	$ 2.0
	Cost of sales and revenues	**(9.6)**	(6.2)
	Interest and other (income) expense, net	**(.9)**	3.9
Commodity contracts	Cost of sales and revenues	**4.2**	7.0
Financial Services			
Foreign-exchange contracts	Interest and other borrowing expenses	**(1.6)**	(3.0)
Interest-rate contracts	Interest and other borrowing expenses	**(42.1)**	(56.2)
	Pre-tax expense reduction	**(36.8)**	(52.5)
	Tax expense	**9.1**	14.3
	After-tax expense increase	**(27.7)**	(38.2)
Unrealized gains on marketable debt securities:			
Marketable debt securities	Investment income	**(.5)**	(.4)
	Tax expense	**.1**	.1
	After-tax income increase	**(.4)**	(.3)
Pension plans:			
Truck, Parts and Other			
Actuarial loss	Interest and other (income) expense, net	**1.2**	7.1
Prior service costs	Interest and other (income) expense, net	**.3**	.2
	Pre-tax expense increase	**1.5**	7.3
	Tax benefit	**(.3)**	(1.7)
	After-tax expense increase	**1.2**	5.6
Total reclassifications out of AOCI		**$ (26.9)**	$ (32.9)

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

AOCI COMPONENTS	LINE ITEM IN THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	Nine Months Ended September 30 2023	2022
Unrealized losses (gains) on derivative contracts:			
Truck, Parts and Other			
Foreign-exchange contracts	Net sales and revenues	**$ 25.2**	$ 17.1
	Cost of sales and revenues	**1.8**	(3.5)
	Interest and other (income) expense, net	**(.9)**	8.8
Commodity contracts	Cost of sales and revenues	**1.8**	17.4
Financial Services			
Foreign-exchange contracts	Interest and other borrowing expenses	**(3.6)**	(7.6)
Interest-rate contracts	Interest and other borrowing expenses	**17.9**	(99.3)
	Pre-tax expense increase (reduction)	**42.2**	(67.1)
	Tax (benefit) expense	**(5.2)**	20.6
	After-tax expense increase (reduction)	**37.0**	(46.5)
Unrealized gains on marketable debt securities:			
Marketable debt securities	Investment income	**(2.8)**	(.8)
	Tax expense	**.7**	.2
	After-tax income increase	**(2.1)**	(.6)
Pension plans:			
Truck, Parts and Other			
Actuarial loss	Interest and other (income) expense, net	**3.6**	21.7
Prior service costs	Interest and other (income) expense, net	**1.0**	.5
	Pre-tax expense increase	**4.6**	22.2
	Tax benefit	**(1.1)**	(5.3)
	After-tax expense increase	**3.5**	16.9
Total reclassifications out of AOCI		**$ 38.4**	$ (30.2)

Stock Compensation Plans

Stock-based compensation expense was $2.5 and $18.4 for the three months and nine months ended September 30, 2023, respectively, and $2.6 and $15.1 for the three and nine months ended September 30, 2022, respectively.

During the first nine months of 2023, the Company issued 1,132,535 common shares under deferred and stock compensation arrangements.

Other Capital Stock Changes

During the first nine months of 2023, the Company acquired no treasury shares under the Company's common stock repurchase plans. The Company acquired 44,955 shares under the Company's Long-Term Incentive Plan. Stock repurchases of $390.0 million remain authorized under the current $500.0 million program approved by the PACCAR Board of Directors on December 4, 2018.

NOTE H - Income Taxes

The effective tax rate for the third quarter of 2023 was 22.7% compared to 21.5% for the third quarter of 2022. The higher effective tax rate in the third quarter of 2023 was primarily due to a higher mix of pre-tax income in jurisdictions with higher tax rates. The effective tax rate for the first nine months of 2023 was 21.9% and is comparable to 21.8% for the first nine months of 2022.

NOTE I - Segment Information

PACCAR operates in three principal segments: Truck, Parts and Financial Services. The Company evaluates the performance of its Truck and Parts segments based on operating profits, which excludes investment income, other income and expense and income taxes. The Financial Services segment’s performance is evaluated based on income before income taxes. The accounting policies of the reportable segments are the same as those applied in the consolidated financial statements as described in Note A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2022.

Truck and Parts

The Truck segment includes the design and manufacture of high-quality, light-, medium- and heavy-duty commercial trucks and the Parts segment includes the distribution of aftermarket parts for trucks and related commercial vehicles, both of which are sold through the same network of independent dealers. These segments derive a large proportion of their revenues and operating profits from operations in North America and Europe. The Truck segment incurs substantial costs to design, manufacture and sell trucks to its customers. The sale of new trucks provides the Parts segment with the basis for parts sales that may continue over the life of the truck, but are generally concentrated in the first five years after truck delivery. To reflect the benefit the Parts segment receives from costs incurred by the Truck segment, certain expenses are allocated from the Truck segment to the Parts segment. The expenses allocated are based on a percentage of the average annual expenses for factory overhead, engineering, research and development and SG&A expenses for the preceding five years. The allocation is based on the ratio of the average parts direct margin dollars (net sales less material and labor costs) to the total truck and parts direct margin dollars for the previous five years. The Company believes such expenses have been allocated on a reasonable basis. Truck segment assets related to the indirect expense allocation are not allocated to the Parts segment.

Financial Services

The Financial Services segment derives its earnings primarily from financing or leasing of PACCAR products and services provided to truck customers and dealers. Revenues are primarily generated from operations in North America and Europe.

In Europe, the marketing of used trucks, including those units sold by the Truck segment subject to an RVG, is performed by the Financial Services segment. When a customer returns the truck at the end of the RVG contract, the Company’s Truck segment records a reduction in an RVG liability and the Company’s Financial Services segment records a used truck asset and revenue from the subsequent sale. Certain gains and losses from the sale of these used trucks are shared with the Truck segment.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Other

Included in Other is the Company's industrial winch manufacturing business as well as sales, income and expenses not attributable to a reportable segment. Other also includes non-service cost components of pension expense and a portion of corporate expense.

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	**2023**	2022
Net sales and revenues:				
Truck	**$ 6,772.8**	$ 5,389.8	**$ 20,274.5**	$ 15,724.8
Less intersegment	**(136.4)**	(191.6)	**(396.8)**	(493.1)
External customers	**6,636.4**	5,198.2	**19,877.7**	15,231.7
Parts	**1,599.4**	1,487.3	**4,858.9**	4,343.2
Less intersegment	**(17.2)**	(15.8)	**(54.8)**	(48.1)
External customers	**1,582.2**	1,471.5	**4,804.1**	4,295.1
Other	**13.7**	17.3	**41.9**	52.8
	8,232.3	6,687.0	**24,723.7**	19,579.6
Financial Services	**464.1**	371.9	**1,327.1**	1,110.6
	$ 8,696.4	$ 7,058.9	**$ 26,050.8**	$ 20,690.2
Income before income taxes:				
Truck	**$ 960.9**	$ 430.5	**$ 2,803.5**	$ 1,129.3
Parts	**412.3**	373.6	**1,270.2**	1,067.1
Other*	**1.6**	8.0	**(616.6)**	14.9
	1,374.8	812.1	**3,457.1**	2,211.3
Financial Services	**133.8**	146.2	**427.3**	437.6
Investment income	**80.8**	21.4	**192.5**	24.3
	$ 1,589.4	$ 979.7	**$ 4,076.9**	$ 2,673.2
Depreciation and amortization:				
Truck	**$ 102.1**	$ 86.3	**$ 301.1**	$ 235.6
Parts	**3.6**	3.5	**10.9**	10.0
Other	**6.4**	6.0	**18.7**	17.9
	112.1	95.8	**330.7**	263.5
Financial Services	**121.8**	107.2	**347.7**	322.1
	$ 233.9	$ 203.0	**$ 678.4**	$ 585.6

* In the first nine months of 2023, Other includes a $600.0 million non-recurring charge related to civil litigation in Europe (EC-related claims) which is discussed in Note M.

NOTE J - Derivative Financial Instruments

As part of its risk management strategy, the Company enters into derivative contracts to hedge against the risks of interest rates, foreign currency rates and commodity prices. Certain derivative instruments designated as fair value hedges, cash flow hedges or net investment hedges are subject to hedge accounting. Derivative instruments that are not subject to hedge accounting are held as derivatives not designated as hedged instruments. The Company's policies prohibit the use of derivatives for speculation or trading. At the inception of each hedge relationship, the Company documents its risk management objectives, procedures and accounting treatment. All of the Company's interest-rate, commodity as well as certain foreign-exchange contracts are transacted under International Swaps and Derivatives Association (ISDA) master agreements. Each agreement permits the net settlement of amounts owed in the event of default and certain other termination events. For derivative financial instruments, the Company has elected not to offset derivative positions in the balance sheet with the same counterparty under the same agreements and is not required to post or receive collateral.

Exposure limits and minimum credit ratings are used to minimize the risks of counterparty default. The Company's maximum exposure to potential default of its derivative counterparties is limited to the asset position of its derivative portfolio. The asset position of the Company's derivative portfolio was $85.2 at September 30, 2023.

The Company assesses hedges at inception and on an ongoing basis to determine the designated derivatives are highly effective in offsetting changes in fair values or cash flow of the hedged items. Hedge accounting is discontinued prospectively when the Company determines a derivative financial instrument has ceased to be a highly effective hedge. Cash flows from derivative instruments are included in Operating activities in the Condensed Consolidated Statements of Cash Flows.

Interest-Rate Contracts: The Company enters into various interest-rate contracts, including interest-rate swaps and cross currency interest-rate swaps. Interest-rate swaps involve the exchange of fixed for floating rate or floating for fixed rate interest payments based on the contractual notional amounts in a single currency. Cross currency interest-rate swaps involve the exchange of notional amounts and interest payments in different currencies. The Company is exposed to interest-rate and exchange-rate risk caused by market volatility as a result of its borrowing activities. The objective of these contracts is to mitigate the fluctuations on earnings, cash flows and fair value of borrowings. Net amounts paid or received are reflected as adjustments to interest expense.

At September 30, 2023, the notional amount of the Company's interest-rate contracts was $2,530.7. Notional maturities for all interest-rate contracts are $6.2 for the remainder of 2023, $550.9 for 2024, $990.9 for 2025, $548.4 for 2026, $263.5 for 2027, $170.8 for 2028 and thereafter.

Foreign-Exchange Contracts: The Company enters into foreign-exchange contracts to hedge certain anticipated transactions and assets and liabilities denominated in foreign currencies, particularly the Canadian dollar, the euro, the British pound, the Australian dollar, the Brazilian real and the Mexican peso. The objective is to reduce fluctuations in earnings and cash flows associated with changes in foreign currency exchange rates. The Company enters into foreign-exchange contracts as net investment hedges to reduce the foreign currency exposure from its investments in foreign subsidiaries. At September 30, 2023, the notional amount of the outstanding foreign-exchange contracts was $2,164.2. Foreign-exchange contracts typically mature within one year.

Commodity Contracts: The Company enters into commodity forward contracts to hedge the prices of certain commodities used in the production of trucks. The objective is to reduce the fluctuation in earnings and cash flows associated with adverse movement in commodity prices. At September 30, 2023, the notional amount of the outstanding commodity contracts was $20.0. Commodity contracts mature within one year.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

The following table presents the balance sheet classification, fair value, gross and pro forma net amounts of derivative financial instruments:

	September 30, 2023		December 31, 2022	
	ASSETS	**LIABILITIES**	ASSETS	LIABILITIES
Derivatives designated under hedge accounting:				
Interest-rate contracts:				
Financial Services:				
Other assets	**$ 43.3**		$ 58.0	
Deferred taxes and other liabilities		**$ 81.5**		$ 82.6
Foreign-exchange contracts:				
Truck, Parts and Other:				
Other current assets	**39.1**		57.3	
Accounts payable, accrued expenses and other		**10.2**		9.5
Financial Services:				
Other current assets	**1.6**		1.6	
Deferred taxes and other liabilities		**4.3**		5.1
Commodity contracts:				
Truck, Parts and Other:				
Other current assets	**.1**		1.5	
Accounts payable, accrued expenses and other		**2.0**		.6
	$ 84.1	**$ 98.0**	$ 118.4	$ 97.8
Derivatives not designated as hedging instruments:				
Foreign-exchange contracts:				
Truck, Parts and Other:				
Other current assets	**$ .9**		$ 1.0	
Accounts payable, accrued expenses and other		**$ .9**		$ .1
Financial Services:				
Other assets	**.2**			
Deferred taxes and other liabilities		**.2**		.1
Commodity contracts:				
Truck, Parts and Other:				
Accounts payable, accrued expenses and other				.2
	$ 1.1	**$ 1.1**	$ 1.0	$ .4
Gross amounts recognized in Balance Sheets	**$ 85.2**	**$ 99.1**	$ 119.4	$ 98.2
Less amounts not offset in financial instruments:				
Truck, Parts and Other:				
Foreign-exchange contracts	**$ (2.5)**	**$ (2.5)**	$ (.1)	$ (.1)
Commodity contracts	**(.1)**	**(.1)**	(.5)	(.5)
Financial Services:				
Foreign-exchange contracts	**(.7)**	**(.7)**	(1.8)	(1.8)
Interest-rate contracts	**(20.7)**	**(20.7)**	(21.5)	(21.5)
Pro forma net amount	**$ 61.2**	**$ 75.1**	$ 95.5	$ 74.3

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

The following table presents the amount of loss (gain) from derivative financial instruments recorded in the Consolidated Statements of Comprehensive Income:

	Three Months Ended September 30, 2023		Nine Months Ended September 30, 2023	
	INTEREST-RATE	FOREIGN-EXCHANGE	INTEREST-RATE	FOREIGN-EXCHANGE
Truck, Parts and Other:				
Net sales and revenues				
Cash flow hedges		$ 13.2		$ 25.2
Cost of sales and revenues				
Cash flow hedges		(9.6)		1.8
Derivatives not designated as hedging instruments		.3		(3.7)
Interest and other (income) expenses, net				
Cash flow hedges		3.3		9.5
Net investment hedges		(2.0)		(6.7)
Derivatives not designated as hedging instruments		(.4)		4.5
		$ 4.8		$ 30.6
Financial Services:				
Interest and other borrowing expenses				
Cash flow hedges	$ (42.1)	$ (.8)	$ 17.9	$ (.3)
Fair value hedges	2.7		7.0	
Derivatives not designated as hedging instruments		.7		.6
	$ (39.4)	$ (.1)	$ 24.9	$ .3
Total	$ (39.4)	$ 4.7	$ 24.9	$ 30.9

	Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
	INTEREST-RATE	FOREIGN-EXCHANGE	INTEREST-RATE	FOREIGN-EXCHANGE
Truck, Parts and Other:				
Net sales and revenues				
Cash flow hedges		$ 2.0		$ 17.1
Cost of sales and revenues				
Cash flow hedges		(6.2)		(3.5)
Derivatives not designated as hedging instruments		.4		.3
Interest and other (income) expenses, net				
Cash flow hedges		3.9		8.8
Net investment hedges		(1.4)		(4.2)
Derivatives not designated as hedging instruments		(5.8)		(4.5)
		$ (7.1)		$ 14.0
Financial Services:				
Interest and other borrowing expenses				
Cash flow hedges	$ (56.2)	$ (3.0)	$ (99.3)	$ (7.6)
Fair value hedges	(.2)		(.1)	
Derivatives not designated as hedging instruments		2.9		3.1
	$ (56.4)	$ (.1)	$ (99.4)	$ (4.5)
Total	$ (56.4)	$ (7.2)	$ (99.4)	$ 9.5

The loss from commodity contracts recorded in Cost of sales and revenue was $4.2 and $1.8 for the three and nine months ended September 30, 2023, respectively and $7.0 and $17.4 for the three and nine months ended September 30, 2022, respectively.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Fair Value Hedges

Changes in the fair value of derivatives designated as fair value hedges are recorded in earnings together with the changes in fair value of the hedged item attributable to the risk being hedged. The following table presents the amounts recorded on the Consolidated Balance Sheets related to cumulative basis adjustments for fair value hedges:

	September 30 2023	December 31 2022
Financial Services		
Term notes:		
Carrying amount of the hedged liabilities	**$ 123.1**	$ 319.8
Cumulative basis adjustment included in the carrying amount	**9.8**	27.7

The above table excludes the cumulative basis adjustments on discontinued hedge relationships of $14.9 and $7.1 as of September 30, 2023 and December 31, 2022, respectively.

Cash Flow Hedges

Substantially all of the Company's interest-rate contracts, some foreign-exchange contracts and all commodity contracts have been designated as cash flow hedges. Changes in the fair value of derivatives designated as cash flow hedges are recorded in AOCI. Amounts in AOCI are reclassified into net income in the same period in which the hedged transaction affects earnings. The Company elected to exclude the forward premium component (excluded component) on some foreign-exchange cash flow hedges and amortize the excluded component over the life of the derivative instruments. The amortization of the excluded component is recognized in Interest and other (income), net in Truck, Parts and Other segment and Interest and other borrowing expenses in Financial Services segment in the Consolidated Statements of Comprehensive Income. The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows is 9.2 years.

The following tables presents the pre-tax effects of gain (loss) on cash flow hedges recognized in other comprehensive income (loss) (OCI):

	Three Months Ended September 30, 2023			**Nine Months Ended September 30, 2023**		
	INTEREST-RATE	**FOREIGN-EXCHANGE**	**COMMODITY**	**INTEREST-RATE**	**FOREIGN-EXCHANGE**	**COMMODITY**
Gain (loss) recognized in OCI:						
Truck, Parts and Other		**$ 33.7**	**$ (4.8)**		**$ (33.5)**	**$ (2.9)**
Financial Services	**$ 44.9**	**1.6**		**$ (33.0)**	**3.2**	
	$ 44.9	**$ 35.3**	**$ (4.8)**	**$ (33.0)**	**$ (30.3)**	**$ (2.9)**

	Three Months Ended September 30, 2022			Nine Months Ended September 30, 2022		
	INTEREST-RATE	FOREIGN-EXCHANGE	COMMODITY	INTEREST-RATE	FOREIGN-EXCHANGE	COMMODITY
Gain (loss) recognized in OCI:						
Truck, Parts and Other		$ 35.4	$ (7.9)		$ 35.5	$ (15.7)
Financial Services	$ 49.4	(.1)		$ 109.1	(.4)	
	$ 49.4	$ 35.3	$ (7.9)	$ 109.1	$ 35.1	$ (15.7)

The amount of gain recorded in AOCI at September 30, 2023 that is estimated to be reclassified into earnings in the following 12 months if interest rates and exchange rates remain unchanged is approximately $9.5, net of taxes. The fixed interest earned on finance receivables will offset the amount recognized in interest expense, resulting in a stable interest margin consistent with the Company's risk management strategy.

The amount of gains reclassified out of AOCI into net income based on the probability that the original forecasted transactions would not occur was nil and $.2 for the three months and nine months ended September 30, 2023, respectively and nil and $.1 for the same periods ended September 30, 2022.

Net Investment Hedges

Changes in the fair value of derivatives designated as net investment hedges are recorded in AOCI as an adjustment to the Cumulative Translation Adjustment (CTA). At September 30, 2023, the notional amount of the outstanding net investment hedges was $443.6. For the three and nine months ended September 30, 2023, the pre-tax gain recognized in OCI for the net investment hedges were $13.9 and $10.5, respectively and $22.8 and $58.8 for the same periods ending September 30, 2022.

Derivatives Not Designated As Hedging Instruments

For other risk management purposes, the Company enters into derivative instruments that do not qualify for hedge accounting. These derivative instruments are used to mitigate the risk of market volatility arising from borrowings and foreign currency denominated transactions. Changes in the fair value of derivatives not designated as hedging instruments are recorded in earnings in the period in which the change occurs.

NOTE K - Fair Value Measurements

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs to valuation techniques used to measure fair value are either observable or unobservable. These inputs have been categorized into the fair value hierarchy described below.

Level 1 – Valuations are based on quoted prices that the Company has the ability to obtain in actively traded markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market or exchange traded market, valuation of these instruments does not require a significant degree of judgment.

Level 2 – Valuations are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuations are based on model-based techniques for which some or all of the assumptions are obtained from indirect market information that is significant to the overall fair value measurement and which require a significant degree of management judgment.

The Company uses the following methods and assumptions to measure fair value for assets and liabilities subject to recurring fair value measurements.

Marketable Debt Securities: The Company's marketable debt securities consist of municipal bonds, government obligations, investment-grade corporate obligations, commercial paper, asset-backed securities and term deposits. The fair value of U.S. government obligations is determined using the market approach and is based on quoted prices in active markets and are categorized as Level 1.

The fair value of U.S. government agency obligations, non-U.S. government bonds, municipal bonds, corporate bonds, asset-backed securities, commercial paper and term deposits is determined using the market approach and is primarily based on matrix pricing as a practical expedient which does not rely exclusively on quoted prices for a specific security. Significant inputs used to determine fair value include interest rates, yield curves, credit rating of the security and other observable market information and are categorized as Level 2.

Marketable Equity Securities: The Company's equity securities are traded on active exchanges and are classified as Level 1.

Derivative Financial Instruments: The Company's derivative contracts consist of interest-rate swaps, cross currency swaps, foreign currency exchange and commodity contracts. These derivative contracts are traded over the counter, and their fair value is determined using industry standard valuation models, which are based on the income approach (i.e., discounted cash flows). The significant observable inputs into the valuation models include interest rates, yield curves, currency exchange rates, credit default swap spreads, forward rates and commodity prices and are categorized as Level 2.

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Assets and Liabilities Subject to Recurring Fair Value Measurement

The Company's assets and liabilities subject to recurring fair value measurements are either Level 1 or Level 2 as follows:

At September 30, 2023	LEVEL 1	LEVEL 2	TOTAL
Assets:			
Marketable debt securities			
U.S. tax-exempt securities		$ 284.9	$ 284.9
U.S. taxable municipal / non-U.S. provincial bonds		240.3	240.3
U.S. corporate securities		344.2	344.2
U.S. government and agency securities	$ 147.2		147.2
Non-U.S. corporate securities		496.1	496.1
Non-U.S. government securities		132.2	132.2
Other debt securities		95.8	95.8
Total marketable debt securities	$ 147.2	$ 1,593.5	$ 1,740.7
Marketable equity securities	$ 2.4		$ 2.4
Total marketable securities	$ 149.6	$ 1,593.5	$ 1,743.1
Derivatives			
Cross currency swaps		$ 29.2	$ 29.2
Interest-rate swaps		14.1	14.1
Foreign-exchange contracts		41.8	41.8
Commodity contracts		.1	.1
Total derivative assets		$ 85.2	$ 85.2
Liabilities:			
Derivatives			
Cross currency swaps		$ 71.3	$ 71.3
Interest-rate swaps		10.2	10.2
Foreign-exchange contracts		15.6	15.6
Commodity contracts		2.0	2.0
Total derivative liabilities		$ 99.1	$ 99.1

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

At December 31, 2022	LEVEL 1	LEVEL 2	TOTAL
Assets:			
Marketable debt securities			
U.S. tax-exempt securities		$ 445.1	$ 445.1
U.S. taxable municipal / non-U.S. provincial bonds		180.8	180.8
U.S. corporate securities		251.0	251.0
U.S. government and agency securities	$ 115.0		115.0
Non-U.S. corporate securities		450.0	450.0
Non-U.S. government securities		76.4	76.4
Other debt securities		94.7	94.7
Total marketable debt securities	$ 115.0	$ 1,498.0	$ 1,613.0
Marketable equity securities	$ 1.2		$ 1.2
Total marketable securities	$ 116.2	$ 1,498.0	$ 1,614.2
Derivatives			
Cross currency swaps		$ 49.1	$ 49.1
Interest-rate swaps		8.9	8.9
Foreign-exchange contracts		59.9	59.9
Commodity contracts		1.5	1.5
Total derivative assets		$ 119.4	$ 119.4
Liabilities:			
Derivatives			
Cross currency swaps		$ 52.0	$ 52.0
Interest-rate swaps		30.6	30.6
Foreign-exchange contracts		14.8	14.8
Commodity contracts		.8	.8
Total derivative liabilities		$ 98.2	$ 98.2

Fair Value Disclosure of Other Financial Instruments

For financial instruments that are not recognized at fair value, the Company uses the following methods and assumptions to determine the fair value. These instruments are categorized as Level 2, except cash which is categorized as Level 1 and fixed rate loans which are categorized as Level 3.

Cash and Cash Equivalents: Carrying amounts approximate fair value.

Financial Services Net Receivables: For floating rate loans, wholesale financing and operating lease and other trade receivables, carrying values approximate fair values. For fixed rate loans, fair values are estimated using the income approach by discounting cash flows to their present value based on assumptions regarding the credit and market risks to approximate current rates for comparable loans. Finance lease receivables and related allowance for credit losses have been excluded from the accompanying table.

Debt: The carrying amounts of Financial Services commercial paper, variable rate bank loans and variable rate term notes approximate fair value. For fixed rate debt, fair values are estimated using the income approach by discounting cash flows to their present value based on current rates for comparable debt.

The Company's estimate of fair value for fixed rate loans and debt that are not carried at fair value was as follows:

	September 30, 2023		December 31, 2022	
	CARRYING AMOUNT	**FAIR VALUE**	CARRYING AMOUNT	FAIR VALUE
Assets:				
Financial Services fixed rate loans	**$ 7,764.7**	**$ 7,580.8**	$ 6,859.1	$ 6,582.0
Liabilities:				
Financial Services fixed rate debt	**8,067.5**	**7,833.6**	8,070.5	7,715.9

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

NOTE L - Employee Benefit Plans

The Company has several defined benefit pension plans, which cover a majority of its employees. The following information details the components of net pension (income) expense for the Company's defined benefit plans:

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	**2023**	2022
Service cost	**$ 23.5**	$ 37.7	**$ 70.4**	$ 113.5
Interest on projected benefit obligation	**32.0**	21.0	**95.7**	63.9
Expected return on assets	**(57.8)**	(53.2)	**(172.9)**	(162.0)
Amortization of prior service costs	**.3**	.2	**1.0**	.5
Recognized actuarial loss	**1.3**	7.1	**3.7**	21.7
Net pension (income) expense	**$ (.7)**	$ 12.8	**$ (2.1)**	$ 37.6

The components of net pension expense other than service cost are included in Interest and other (income) expense, net on the Consolidated Statements of Comprehensive Income.

During the three months and nine months ended September 30, 2023, the Company contributed $5.6 and $17.1 to its pension plans, respectively, and $21.1 and $34.3 for the three months and nine months ended September 30, 2022, respectively.

NOTE M – Commitments and Contingencies

On July 19, 2016, the European Commission (EC) concluded its investigation of all major European truck manufacturers and reached a settlement with DAF Trucks N.V., DAF Trucks Deutschland GmbH and PACCAR Inc (collectively "the Company"). Following the settlement, certain EC-related claims and lawsuits have been filed in various jurisdictions primarily in Europe against all major European truck manufacturers including the Company and certain subsidiaries. These claims and lawsuits include a number of collective proceedings, including a class action in the United Kingdom and Israel, alleging EC-related claims and seeking monetary damages. In certain jurisdictions, additional claimants may bring EC-related claims and lawsuits against the Company or its subsidiaries.

The legal proceedings are moving through the court systems. In 2023, several European courts issued judgments; some have been favorable while others have been unfavorable and are being appealed. The Company believes it has meritorious defenses to the legal claims. In early 2023, the Company began settling with selected claimants. Based on these settlements and judgments, the Company recorded in the first quarter 2023, a non-recurring pre-tax charge of $600.0 million ($446.4 million after-tax) for the estimable total cost. The estimate may be adjusted as the legal process continues, which could have a material impact on the Company's financial results.

PACCAR is also a defendant in various other legal proceedings and, in addition, there are various other contingent liabilities arising in the normal course of business. After consultation with legal counsel, management does not anticipate that disposition of these various other proceedings and contingent liabilities will have a material effect on the consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW:

PACCAR is a global technology company whose Truck segment includes the design and manufacture of high-quality light-, medium- and heavy-duty commercial trucks. In North America, trucks are sold under the Kenworth and Peterbilt nameplates, in Europe, under the DAF nameplate and in Australia and South America, under the Kenworth and DAF nameplates. The Parts segment includes the distribution of aftermarket parts for trucks and related commercial vehicles. The Company’s Financial Services segment derives its earnings primarily from financing or leasing PACCAR products in North America, Europe, Australia and South America. The Company’s Other business includes the manufacturing and marketing of industrial winches.

Third Quarter Financial Highlights:

- Worldwide net sales and revenues were $8.70 billion in 2023 compared to $7.06 billion in 2022, primarily due to higher truck and parts revenues.
- Truck revenues were $6.64 billion in 2023 compared to $5.20 billion in 2022, reflecting higher truck deliveries and price realization in all markets.
- Parts sales were $1.58 billion in 2023 compared to $1.47 billion in 2022, primarily reflecting higher price realization in the U.S. and Europe.
- Financial Services revenues were $464.1 million in 2023 compared to $371.9 million in 2022, primarily due to portfolio growth and higher portfolio yields.
- Net income was $1.23 billion ($2.34 per diluted share) in 2023 compared to $769.4 million ($1.47 per diluted share) in 2022 due to higher Truck and Parts operating results.
- Capital investments were $174.5 million in 2023 compared to $115.0 million in 2022.
- Research and development (R&D) expenses were $103.5 million in 2023 compared to $82.9 million in 2022.

First Nine Months Financial Highlights:

- Worldwide net sales and revenues were $26.05 billion in 2023 compared to $20.69 billion in 2022, primarily due to higher truck and parts revenues.
- Truck revenues were $19.88 billion in 2023 compared to $15.23 billion in 2022, primarily due to higher truck deliveries and price realization in all markets.
- Parts sales were $4.80 billion in 2023 compared to $4.30 billion in 2022 reflecting higher price realization in all markets.
- Financial Services revenues were $1.33 billion in 2023 compared to $1.11 billion in 2022, primarily due to portfolio growth and higher portfolio yields.
- Net income was $3.18 billion ($6.07 per diluted share) in 2023 compared to $2.09 billion ($3.99 per diluted share) in 2022 due to higher Truck and Parts operating results.
- Adjusted net income (non-GAAP), excluding a $446.4 million after-tax non-recurring charge related to civil litigation in Europe in the first quarter of this year, was $3.63 billion ($6.92 per diluted share). See Reconciliation of GAAP to Non-GAAP Financial Measures on page 48.
- Capital investments were $486.5 million in 2023 compared to $349.5 million in 2022.
- Research and development (R&D) expenses were $302.0 million in 2023 compared to $241.3 million in 2022.

PACCAR has begun construction of a new 240,000 square-foot PACCAR Parts Distribution Center (PDC) to be opened in Massbach, Germany, in 2024. This PDC will improve parts delivery to dealers and customers in the region.

PACCAR, Cummins, Daimler Trucks and EVE Energy are partnering to create state of the art commercial vehicle battery cell production in the United States. The joint venture partners expect growing demand for zero emissions vehicles throughout the decade. The planned battery cell factory will provide cost effective scale and industry leading battery cell technology, which will benefit our commercial vehicle customers. The total investment is expected to be in the range of $2-3 billion, subject to regulatory approval, for the 21-gigawatt hour (GWh) factory, of which PACCAR's share is 30%. PACCAR, Cummins and Daimler Truck will each own 30% of the joint venture, which will initially focus on the lithium-iron-phosphate (LFP) battery technology for commercial battery-electric trucks. EVE Energy will serve as the technology partner in the joint venture with 10% ownership and will contribute its industry leading battery cell design and manufacturing expertise.

The PACCAR Financial Services (PFS) group of companies has operations covering four continents and 26 countries. The global breadth of PFS and its rigorous credit application process support a portfolio of loans and leases with total assets of $19.56 billion. PFS issued $2.14 billion in medium-term notes during the first nine months of 2023 to support new business volume and repay maturing debt.

Truck Outlook

Truck industry heavy-duty retail sales in the U.S. and Canada in 2023 are expected to be 295,000 to 315,000 units compared to 283,500 in 2022. Estimates for the U.S. and Canada truck industry retail sales in 2024 are in the range of 260,000 to 300,000 units. In Europe, 2023 truck industry registrations for over 16-tonne vehicles are expected to be 310,000 to 330,000 units compared to 297,500 in 2022. The European truck industry registrations in the above 16-tonne truck market for 2024 are projected to be in a range of 260,000 to 300,000. In South America, heavy-duty truck industry registrations in 2023 are projected to be 105,000 to 115,000 as compared to 137,100 in 2022, and in a similar range in 2024.

The Company has been affected by an industry-wide undersupply of component parts and anticipates the shortages may continue to affect deliveries in 2023.

Parts Outlook

In 2023, PACCAR Parts sales are expected to increase 10-13% compared to 2022 levels reflecting good retail demand. In 2024, PACCAR Parts sales could increase 4-8% from 2023 levels, depending on economic conditions.

Financial Services Outlook

In 2023, average earning assets are expected to increase 8-10% compared to 2022 due to strong new business volume and dealer wholesale financing. If current freight transportation conditions decline due to weaker economic conditions, then past due accounts, truck repossessions and credit losses would likely increase from the current low levels and new business volume would likely decline. In 2024, average earning assets are expected to increase 3-5% compared to 2023.

Capital Investments and R&D Outlook

Capital investments in 2023 are expected to be $650 to $675 million and R&D is expected to be $410 to $420 million. In 2024, capital investments are projected to be $675 to $725 million and R&D is expected to be $470 to $520 million. The Company is increasing its investment in fuel efficient diesel and electric powertrain technologies, autonomous systems, connected vehicle services, and next-generation manufacturing and parts and distribution capabilities.

See the Forward-Looking Statements section of Management’s Discussion and Analysis for factors that may affect these outlooks.

RESULTS OF OPERATIONS:

The Company's results of operations for the three and nine months ended September 30, 2023 and 2022 are presented below.

	Three Months Ended September 30		Nine Months Ended September 30	
($ in millions, except per share amounts)	**2023**	2022	**2023**	2022
Net sales and revenues:				
Truck	**$ 6,636.4**	$ 5,198.2	**$ 19,877.7**	$ 15,231.7
Parts	**1,582.2**	1,471.5	**4,804.1**	4,295.1
Other	**13.7**	17.3	**41.9**	52.8
Truck, Parts and Other	**8,232.3**	6,687.0	**24,723.7**	19,579.6
Financial Services	**464.1**	371.9	**1,327.1**	1,110.6
	$ 8,696.4	$ 7,058.9	**$ 26,050.8**	$ 20,690.2
Income before income taxes:				
Truck	**$ 960.9**	$ 430.5	**$ 2,803.5**	$ 1,129.3
Parts	**412.3**	373.6	**1,270.2**	1,067.1
Other*	**1.6**	8.0	**(616.6)**	14.9
Truck, Parts and Other	**1,374.8**	812.1	**3,457.1**	2,211.3
Financial Services	**133.8**	146.2	**427.3**	437.6
Investment income	**80.8**	21.4	**192.5**	24.3
Income taxes	**(360.9)**	(210.3)	**(893.4)**	(582.9)
Net income	**$ 1,228.5**	$ 769.4	**$ 3,183.5**	$ 2,090.3
Diluted earnings per share	**$ 2.34**	$ 1.47	**$ 6.07**	$ 3.99
After-tax return on revenues	**14.1 %**	10.9 %	**12.2 %**	10.1 %
After-tax adjusted return on revenues (non-GAAP)**			**13.9 %**	

* In 2023, Other includes a $600.0 million non-recurring charge related to civil litigation in Europe (EC-related claims) in the first quarter 2023.

** See Reconciliation of GAAP to Non-GAAP Financial Measures for 2023 on page 48.

The following provides an analysis of the results of operations for the Company's three reportable segments - Truck, Parts and Financial Services. Where possible, the Company has quantified the impact of factors identified in the following discussion and analysis. In cases where it is not possible to quantify the impact of factors, the Company lists them in estimated order of importance. Factors for which the Company is unable to specifically quantify the impact include market demand, fuel prices, freight tonnage and economic conditions affecting the Company's results of operations.

2023 Compared to 2022:

Truck

The Company's Truck segment accounted for 76% of revenues in the third quarter and first nine months of 2023, respectively, compared to 74% in the third quarter and first nine months of 2022.

The Company's new truck deliveries are summarized below:

	Three Months Ended September 30			Nine Months Ended September 30		
	2023	2022	% CHANGE	**2023**	2022	% CHANGE
U.S. and Canada	**27,500**	24,400	13	**81,000**	69,500	17
Europe	**14,500**	13,300	9	**48,300**	44,800	8
Mexico, South America, Australia and other	**8,100**	6,700	21	**23,800**	20,000	19
Total units	**50,100**	44,400	13	**153,100**	134,300	14

The increase in new truck deliveries worldwide in the third quarter and first nine months of 2023 compared to the same period of 2022 was driven by higher build rates and increased demand in all major markets. The industry-wide undersupply of component parts continues to impact deliveries.

Market share data discussed below is provided by third-party sources and is measured by either retail sales or registrations for the Company's dealer network as a percentage of total registrations or retail sales depending on the geographic market. In the U.S. and Canada, market share is based on retail sales. In Europe, market share is based primarily on registrations.

In the first nine months of 2023, industry retail sales in the heavy-duty market in the U.S. and Canada were 225,200 units compared to 201,000 units in the same period of 2022. The Company's heavy-duty truck retail market share was 28.4% in the first nine months of 2023 compared to 29.4% in the first nine months of 2022. The medium-duty market was 78,400 units in the first nine months of 2023 compared to 64,200 units in the same period of 2022. The Company's medium-duty market share was 13.5% in the first nine months of 2023 compared to 10.0% in the first nine months of 2022.

The over 16-tonne truck market in Europe in the first nine months of 2023 was 263,100 units compared to 217,400 units in the first nine months of 2022. DAF over 16-tonne market share was a 15.9% in the first nine months of 2023 compared to 17.4% in the same period of 2022. The 6 to 16-tonne market in the first nine months of 2023 was 35,800 units compared to 28,700 units in the same period of 2022. DAF market share in the 6 to 16-tonne market in the first nine months of 2023 was 9.0% compared to 10.1% in the same period of 2022.

The Company's worldwide truck net sales and revenues are summarized below:

	Three Months Ended September 30			Nine Months Ended September 30		
($ in millions)	**2023**	2022	% CHANGE	**2023**	2022	% CHANGE
Truck net sales and revenues:						
U.S. and Canada	**$ 4,006.8**	$ 3,200.8	25	**$ 11,715.0**	$ 8,948.4	31
Europe	**1,558.8**	1,239.0	26	**5,155.7**	4,080.0	26
Mexico, South America, Australia and other	**1,070.8**	758.4	41	**3,007.0**	2,203.3	36
	$ 6,636.4	$ 5,198.2	28	**$ 19,877.7**	$ 15,231.7	31
Truck income before income taxes	**$ 960.9**	$ 430.5	123	**$ 2,803.5**	$ 1,129.3	148
Pre-tax return on revenues	**14.5 %**	8.3 %		**14.1 %**	7.4 %	

The Company's worldwide truck net sales and revenues in the third quarter increased to $6.64 billion in 2023 from $5.20 billion in 2022 primarily due to higher truck unit deliveries, improved price realization in all markets and favorable currency translation effects, primarily the euro. Revenues for the first nine months increased to $19.88 billion in 2023 from $15.23 billion in 2022 primarily due to higher truck unit deliveries and improved price realization in all markets.

In the third quarter and first nine months of 2023, Truck segment income before taxes and pretax return on revenues increased to reflect the impact of higher truck unit deliveries and improved margins.

The major factors for the Truck segment changes in net sales and revenues, cost of sales and revenues and gross margin between the three months ended September 30, 2023 and 2022 are as follows:

($ in millions)	**NET SALES AND REVENUES**	**COST OF SALES AND REVENUES**	**GROSS MARGIN**
Three Months Ended September 30, 2022	**$ 5,198.2**	**$ 4,646.2**	**$ 552.0**
Increase (decrease)			
Truck sales volume	**740.2**	**554.8**	**185.4**
Average truck sales prices	**585.9**		**585.9**
Average per truck material, labor and other direct costs		**140.5**	**(140.5)**
Factory overhead and other indirect costs		**61.5**	**(61.5)**
Extended warranties, operating leases and other	**5.9**	**19.7**	**(13.8)**
Currency translation	**106.2**	**98.8**	**7.4**
Total increase	**1,438.2**	**875.3**	**562.9**
Three Months Ended September 30, 2023	**$ 6,636.4**	**$ 5,521.5**	**$ 1,114.9**

- Truck sales volume reflects higher truck deliveries in all major markets.
- Average truck sales prices increased sales by $585.9 million, primarily due to higher price realization worldwide reflecting the positive effect of new truck models as well as moderating inflationary cost increases.

- Average cost per truck increased cost of sales by $140.5 million, primarily due to moderately higher raw material, labor and product support costs, mainly warranty expense.
- Factory overhead and other indirect costs increased $61.5 million, primarily due to higher labor costs, maintenance and depreciation.
- Extended warranties, operating leases and other increased revenues by $5.9 million and increased cost of sales by $19.7 million. The increase in cost of sales was primarily due to higher warranty labor and material costs.
- The currency translation effect on sales and cost of sales primarily reflects an increase in the value of the euro relative to the U.S. dollar.
- Truck gross margin was 16.8% in the third quarter of 2023 compared to 10.6% in the same period of 2022 due to the factors noted above.

The major factors for the Truck segment changes in net sales and revenues, cost of sales and revenues and gross margin between the nine months ended September 30, 2023 and 2022 are as follows:

($ in millions)	NET SALES AND REVENUES	COST OF SALES AND REVENUES	GROSS MARGIN
Nine Months Ended September 30, 2022	$ 15,231.7	$ 13,730.7	$ 1,501.0
Increase (decrease)			
Truck sales volume	2,447.7	1,914.3	533.4
Average truck sales prices	2,216.9		2,216.9
Average per truck material, labor and other direct costs		753.8	(753.8)
Factory overhead and other indirect costs		160.3	(160.3)
Extended warranties, operating leases and other	20.3	103.1	(82.8)
Currency translation	(38.9)	(31.8)	(7.1)
Total increase	4,646.0	2,899.7	1,746.3
Nine Months Ended September 30, 2023	$ 19,877.7	$ 16,630.4	$ 3,247.3

- Truck sales volume reflects higher truck deliveries in all major markets.
- Average truck sales prices increased sales by $2.22 billion, primarily due to higher price realization worldwide reflecting the positive effect of new truck models as well as inflationary cost increases.
- Average cost per truck increased cost of sales by $753.8 million, primarily reflecting higher raw material, labor, and product support costs, mainly warranty expense.
- Factory overhead and other indirect costs increased $160.3 million, primarily due to higher labor costs, maintenance, depreciation and utilities.
- Extended warranties, operating leases and other increased revenues by $20.3 million and increased cost of sales by $103.1 million. The increase in cost of sales was primarily due to higher warranty labor and material costs.
- The currency translation effect on sales and cost of sales mainly reflects a decline in the value of the Canadian dollar and Australian dollar relative to the U.S. dollar, partially offset by the increase in the value of the euro.
- Truck gross margin was 16.3% in the first nine months of 2023 compared to 9.9% in the same period of 2022 due to the factors noted above.

Truck SG&A expense increased in the third quarter of 2023 to $71.5 million from $60.7 million in 2022, and for the first nine months of 2023, Truck SG&A increased to $206.6 million from $201.6 million in 2022. The increase in both periods was primarily due to higher salaries and related expenses and higher travel costs, partially offset by lower professional fees.

As a percentage of sales, Truck SG&A decreased to 1.1% and 1.0% in the third quarter and first nine months of 2023, respectively, compared to 1.2% and 1.3% in the third quarter and first nine months of 2022, respectively.

Parts

The Company’s Parts segment accounted for 19% of revenues in the third quarter and first nine months of 2023, respectively, compared to 21% in the third quarter and first nine months of 2022.

($ in millions)	Three Months Ended September 30 2023	2022	% CHANGE	Nine Months Ended September 30 2023	2022	% CHANGE
Parts net sales and revenues:						
U.S. and Canada	**$ 1,099.8**	$ 1,065.2	3	**$ 3,348.2**	$ 3,071.5	9
Europe	**325.1**	263.3	23	**1,001.5**	832.5	20
Mexico, South America, Australia and other	**157.3**	143.0	10	**454.4**	391.1	16
	$ 1,582.2	$ 1,471.5	8	**$ 4,804.1**	$ 4,295.1	12
Parts income before income taxes	**$ 412.3**	$ 373.6	10	**$ 1,270.2**	$ 1,067.1	19
Pre-tax return on revenues	**26.1 %**	25.4 %		**26.4 %**	24.8 %	

The Company’s worldwide parts net sales and revenues for the third quarter increased to $1.58 billion in 2023 from $1.47 billion in 2022 primarily due to higher price realization in all markets and favorable currency translation effects, primarily the euro. For the first nine months, worldwide parts net sales and revenues increased to $4.80 billion in 2023 from $4.30 billion in 2022 primarily due to higher price realization in all markets.

For the third quarter and first nine months of 2023, the increase in Parts segment income before income taxes and pre-tax return on revenues was primarily due to higher price realization.

The major factors for the changes in Parts segment net sales and revenues, cost of sales and revenues and gross margin between the three months ended September 30, 2023 and 2022 are as follows:

($ in millions)	**NET SALES AND REVENUES**	**COST OF SALES AND REVENUES**	**GROSS MARGIN**
Three Months Ended September 30, 2022	**$ 1,471.5**	**$ 1,023.5**	**$ 448.0**
(Decrease) increase			
Aftermarket parts volume	**(35.3)**	**(22.8)**	**(12.5)**
Average aftermarket parts sales prices	**123.6**		**123.6**
Average aftermarket parts direct costs		**59.5**	**(59.5)**
Warehouse and other indirect costs		**10.6**	**(10.6)**
Currency translation	**22.4**	**12.3**	**10.1**
Total increase	**110.7**	**59.6**	**51.1**
Three Months Ended September 30, 2023	**$ 1,582.2**	**$ 1,083.1**	**$ 499.1**

- Aftermarket parts sales volume decreased by $35.3 million and related cost of sales decreased by $22.8 million primarily reflecting lower sales volume in the U.S. and Europe.
- Average aftermarket parts sales prices increased sales by $123.6 million primarily due to higher price realization in the U.S. and Europe.
- Average aftermarket parts direct costs increased $59.5 million due to higher material and freight costs, primarily in the U.S. and Europe.
- Warehouse and other indirect costs increased $10.6 million primarily due to higher salaries and related expenses and higher shipping costs.
- The currency translation effect on sales and cost of sales primarily reflects an increase in the value of the euro relative to the U.S. dollar.
- Parts gross margins in the third quarter of 2023 increased to 31.5% from 30.4% in the third quarter of 2022 due to the factors noted above.

The major factors for the changes in Parts segment net sales and revenues, cost of sales and revenues and gross margin between the nine months ended September 30, 2023 and 2022 are as follows:

($ in millions)	NET SALES AND REVENUES	COST OF SALES AND REVENUES	GROSS MARGIN
Nine Months Ended September 30, 2022	$ 4,295.1	$ 2,997.5	$ 1,297.6
(Decrease) increase			
Aftermarket parts volume	(7.0)	(4.1)	(2.9)
Average aftermarket parts sales prices	522.4		522.4
Average aftermarket parts direct costs		250.1	(250.1)
Warehouse and other indirect costs		37.0	(37.0)
Currency translation	(6.4)	(2.1)	(4.3)
Total increase	509.0	280.9	228.1
Nine Months Ended September 30, 2023	$ 4,804.1	$ 3,278.4	$ 1,525.7

- Aftermarket parts sales volume decreased by $7.0 million and related cost of sales decreased by $4.1 million primarily reflecting lower sales volume in the U.S., partially offset by higher sales volume in Australia, Brasil and Europe.
- Average aftermarket parts sales prices increased sales by $522.4 million primarily due to higher price realization in the U.S. and Europe.
- Average aftermarket parts direct costs increased $250.1 million due to higher material and freight costs, primarily in the U.S. and Europe.
- Warehouse and other indirect costs increased $37.0 million primarily due to higher salaries and related expenses and higher shipping costs.
- The currency translation effect on sales and cost of sales primarily reflects a decrease in the value of the Australian dollar and the Canadian dollar relative to the U.S. dollar, partially offset by an increase in the value of the euro.
- Parts gross margins in the first nine months of 2023 increased to 31.8% from 30.2% in the first nine months of 2022 due to the factors noted above.

Parts SG&A expense increased in the third quarter of 2023 to $61.4 million from $52.9 million in 2022, and for the first nine months, Parts SG&A increased to $178.6 million in 2023 from $162.4 million in 2022. The increase in both periods was primarily due to higher salaries and related expenses.

As a percentage of sales, Parts SG&A was 3.9% and 3.7% in the third quarter and first nine months of 2023, respectively, compared to 3.6% and 3.8% in the third quarter and first nine months of 2022.

Financial Services

The Company's Financial Services segment accounted for 5% of revenues in the third quarter and first nine months of 2023 and 2022.

($ in millions)	Three Months Ended September 30 2023	2022	% CHANGE	Nine Months Ended September 30 2023	2022	% CHANGE
New loan and lease volume:						
U.S. and Canada	**$ 1,032.7**	$ 758.0	36	**$ 2,699.6**	$ 2,412.0	12
Europe	**368.6**	345.7	7	**1,136.9**	1,043.7	9
Mexico, Australia, Brasil and other	**500.3**	333.4	50	**1,407.6**	964.4	46
	$ 1,901.6	$ 1,437.1	32	**$ 5,244.1**	$ 4,420.1	19
New loan and lease volume by product:						
Loans and finance leases	**$ 1,737.3**	$ 1,190.8	46	**$ 4,768.6**	$ 3,639.4	31
Equipment on operating lease	**164.3**	246.3	(33)	**475.5**	780.7	(39)
	$ 1,901.6	$ 1,437.1	32	**$ 5,244.1**	$ 4,420.1	19
New loan and lease unit volume:						
Loans and finance leases	**12,120**	10,000	21	**34,670**	29,730	17
Equipment on operating lease	**1,690**	2,800	(40)	**5,220**	8,760	(40)
	13,810	12,800	8	**39,890**	38,490	4
Average earning assets:						
U.S. and Canada	**$ 9,644.9**	$ 8,608.7	12	**$ 9,268.7**	$ 8,622.6	7
Europe	**4,445.6**	3,628.2	23	**4,432.2**	3,773.0	17
Mexico, Australia, Brasil and other	**3,803.2**	2,579.6	47	**3,447.8**	2,475.0	39
	$ 17,893.7	$ 14,816.5	21	**$ 17,148.7**	$ 14,870.6	15
Average earning assets by product:						
Loans and finance leases	**$ 12,250.9**	$ 10,228.8	20	**$ 11,613.5**	$ 10,194.7	14
Dealer wholesale financing	**3,148.6**	1,870.7	68	**2,933.6**	1,855.9	58
Equipment on lease and other	**2,494.2**	2,717.0	(8)	**2,601.6**	2,820.0	(8)
	$ 17,893.7	$ 14,816.5	21	**$ 17,148.7**	$ 14,870.6	15
Revenues:						
U.S. and Canada	**$ 190.6**	$ 170.5	12	**$ 559.9**	$ 507.4	10
Europe	**138.2**	118.1	17	**413.2**	372.5	11
Mexico, Australia, Brasil and other	**135.3**	83.3	62	**354.0**	230.7	53
	$ 464.1	$ 371.9	25	**$ 1,327.1**	$ 1,110.6	19
Revenues by product:						
Loans and finance leases	**$ 205.0**	$ 135.2	52	**$ 547.0**	$ 382.4	43
Dealer wholesale financing	**64.8**	25.2	157	**169.5**	61.2	177
Equipment on lease and other	**194.3**	211.5	(8)	**610.6**	667.0	(8)
	$ 464.1	$ 371.9	25	**$ 1,327.1**	$ 1,110.6	19
Income before income taxes	**$ 133.8**	$ 146.2	(8)	**$ 427.3**	$ 437.6	(2)

New loan and lease unit volume was $1.90 billion in the third quarter of 2023 compared to $1.44 billion in the third quarter of 2022, and for the first nine months was $5.24 billion in 2023 and $4.42 billion in 2022. The increase in new loan and finance lease volume reflected higher retail sales of PACCAR trucks and a higher amount financed per truck in all major markets. The decrease in equipment on operating leases new business volume reflected lower market demand, partially offset by a higher amount financed per truck in all major markets.

In the third quarter of 2023, PFS finance market share of new PACCAR truck sales was 23.7% compared to 24.4% in the third quarter of 2022. In the first nine months of 2023, PFS finance market share of new PACCAR truck sales was 23.4% compared to 25.7% in the first nine months of 2022.

In the third quarter of 2023, PFS revenues increased to $464.1 million from $371.9 million in 2022. In the first nine months of 2023, PFS revenues increased to $1.33 billion from $1.11 billion in 2022. The increase for both periods were primarily due to higher interest income driven by higher portfolio yields and portfolio growth. The effects of currency translation increased PFS revenues by $21.9 million and $24.0 million for the third quarter and first nine months of 2023, respectively, primarily due to a stronger Mexican peso and euro relative to the U.S. dollar.

PFS income before income taxes decreased to $133.8 million in the third quarter of 2023 from $146.2 million in the third quarter of 2022. In the first nine months of 2023, PFS income before income taxes decreased to $427.3 million from $437.6 million in 2022. The decrease in both periods was primarily due to lower operating lease margins, reflecting lower results on returned lease assets, partially offset by higher finance margins. The effects of currency translation increased PFS income before income taxes by $7.5 million and $10.2 million for the third quarter and first nine months of 2023, respectively, primarily due to a stronger Mexican peso relative to the U.S. dollar.

Included in Financial Services "Other assets" on the Company's Consolidated Balance Sheets are used trucks held for sale, net of impairments, of $288.1 million at September 30, 2023 and $141.7 million at December 31, 2022. These trucks are primarily units returned from matured operating leases in the ordinary course of business, and also include trucks acquired from repossessions or through acquisitions of used trucks in trades related to new truck sales and trucks returned from residual value guarantees (RVGs).

The Company recognized gains on used trucks, excluding repossessions, of $4.3 million in the third quarter of 2023 compared to gains of $34.8 million in the third quarter of 2022, including $3.2 million of losses on multiple unit transactions in the third quarter of 2023 compared to $.1 million in the third quarter of 2022. Used truck losses related to repossessions, which are recognized as credit losses, were not significant for either the third quarter of 2023 or 2022.

The Company recognized gains on used trucks, excluding repossessions, of $51.2 million in the first nine months of 2023 compared to gains of $104.7 million in the first nine months of 2022, including losses on multiple unit transactions of $4.2 million in the first nine months of 2023 compared to $.2 million in the first nine months of 2022. Used truck losses related to repossessions, which are recognized as credit losses, were not significant for the first nine months of 2023 or 2022.

The major factors for the changes in interest and fees, interest and other borrowing expenses and finance margin for the three months ended September 30, 2023 and 2022 are outlined below:

($ in millions)	INTEREST AND FEES	INTEREST AND OTHER BORROWING EXPENSES	FINANCE MARGIN
Three Months Ended September 30, 2022	$ 160.4	$ 55.8	$ 104.6
Increase (decrease)			
Average finance receivables	52.5		52.5
Average debt balances		22.7	(22.7)
Yields	46.6		46.6
Borrowing rates		55.2	(55.2)
Currency translation and other	10.3	4.8	5.5
Total increase	109.4	82.7	26.7
Three Months Ended September 30, 2023	$ 269.8	$ 138.5	$ 131.3

- Average finance receivables increased $3.07 billion (excluding foreign exchange effects) in the third quarter of 2023 primarily due to higher average loan, finance lease and dealer wholesale balances.
- Average debt balances increased $2.14 billion (excluding foreign exchange effects) in the third quarter of 2023, reflecting higher funding requirements for the portfolio, which includes loans, finance leases, dealer wholesale and equipment on operating lease.
- Higher portfolio yields (7.0% in 2023 compared to 5.3% in 2022) increased interest and fees by $46.6 million. The higher portfolio yields were primarily due to higher market rates in all markets.
- Higher borrowing rates (4.2% in 2023 compared to 2.1% in 2022) increased interest and other borrowing expenses by $55.2 million and were primarily due to higher debt market rates in all markets.
- The currency translation effects reflect an increase in the value of foreign currencies relative to the U.S. dollar, primarily the Mexican peso and euro.

The major factors for the changes in interest and fees, interest and other borrowing expenses and finance margin for the nine months ended September 30, 2023 and 2022 are outlined below:

($ in millions)		INTEREST AND FEES		INTEREST AND OTHER BORROWING EXPENSES		FINANCE MARGIN
Nine Months Ended September 30, 2022	**$**	**443.6**	**$**	**142.0**	**$**	**301.6**
Increase (decrease)						
Average finance receivables		**122.9**				**122.9**
Average debt balances				**48.0**		**(48.0)**
Yields		**139.3**				**139.3**
Borrowing rates				**153.9**		**(153.9)**
Currency translation and other		**10.7**		**3.9**		**6.8**
Total increase		**272.9**		**205.8**		**67.1**
Nine Months Ended September 30, 2023	**$**	**716.5**	**$**	**347.8**	**$**	**368.7**

- Average finance receivables increased $2.53 billion (excluding foreign exchange effects) in the first nine months of 2023 primarily due to higher average loan, finance lease and dealer wholesale balances.
- Average debt balances increased $1.68 billion (excluding foreign exchange effects) in the first nine months of 2023, reflecting higher funding requirements for the portfolio, which includes loans, finance leases, dealer wholesale and equipment on operating lease.
- Higher portfolio yields (6.6% in 2023 compared to 4.9% in 2022) increased interest and fees by $139.3 million. The higher portfolio yields were primarily due to higher market rates in all markets.
- Higher borrowing rates (3.7% in 2023 compared to 1.8% in 2022) were primarily due to higher debt market rates in all markets.
- The currency translation effects reflect an increase in the value of foreign currencies relative to the U.S. dollar, primarily the Mexican peso.

The following table summarizes operating lease, rental and other revenues and depreciation and other expenses:

	Three Months Ended September 30				Nine Months Ended September 30			
($ in millions)		**2023**		2022		**2023**		2022
Operating lease and rental revenues	**$**	**184.1**	$	197.3	**$**	**574.9**	$	610.4
Used truck sales		**3.1**		8.9		**15.5**		42.3
Insurance, franchise and other revenues		**7.1**		5.3		**20.2**		14.3
Operating lease, rental and other revenues	**$**	**194.3**	$	211.5	**$**	**610.6**	$	667.0
Depreciation of operating lease equipment	**$**	**122.2**	$	122.7	**$**	**363.0**	$	359.2
Vehicle operating expenses		**20.0**		4.6		**44.2**		24.0
Cost of used truck sales		**3.2**		9.3		**16.1**		41.2
Insurance, franchise and other expenses		**1.5**		.8		**3.7**		1.9
Depreciation and other expenses	**$**	**146.9**	$	137.4	**$**	**427.0**	$	426.3

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expenses and lease margin between the three months ended September 30, 2023 and 2022 are outlined below:

($ in millions)	OPERATING LEASE, RENTAL AND OTHER REVENUES	DEPRECIATION AND OTHER EXPENSES	LEASE MARGIN
Three Months Ended September 30, 2022	$ 211.5	$ 137.4	$ 74.1
(Decrease) increase			
Used truck sales	(6.0)	(6.2)	.2
Results on returned lease assets		32.4	(32.4)
Average operating lease assets	(37.6)	(31.1)	(6.5)
Revenue and cost per asset	13.4	6.1	7.3
Currency translation and other	13.0	8.3	4.7
Total (decrease) increase	(17.2)	9.5	(26.7)
Three Months Ended September 30, 2023	$ 194.3	$ 146.9	$ 47.4

- Lower sales volume and lower market prices of used trucks on trade, primarily in Europe, decreased revenues by $6.0 million and related depreciation and other expenses by $6.2 million.
- Results on returned lease assets increased depreciation and other expenses by $32.4 million, primarily due to lower gains on sales of returned units as a result of lower used truck market values.
- Average operating lease assets decreased $313.0 million (excluding foreign exchange effects), which decreased revenues by $37.6 million and related depreciation and other expenses by $31.1 million.
- Revenue per asset increased $13.4 million primarily due to higher lease rates, reflecting higher average truck values financed and higher market rates. Cost per asset increased $6.1 million due to higher depreciation and operating expenses.
- The currency translation effects reflect an increase in the value of foreign currencies relative to the U.S. dollar, primarily the Mexican peso and the euro.

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expenses and lease margin between the nine months ended September 30, 2023 and 2022 are outlined below:

($ in millions)	OPERATING LEASE, RENTAL AND OTHER REVENUES	DEPRECIATION AND OTHER EXPENSES	LEASE MARGIN
Nine Months Ended September 30, 2022	$ 667.0	$ 426.3	$ 240.7
(Decrease) increase			
Used truck sales	(27.0)	(25.2)	(1.8)
Results on returned lease assets		68.2	(68.2)
Average operating lease assets	(87.9)	(72.3)	(15.6)
Revenue and cost per asset	39.5	20.3	19.2
Currency translation and other	19.0	9.7	9.3
Total (decrease) increase	(56.4)	.7	(57.1)
Nine Months Ended September 30, 2023	$ 610.6	$ 427.0	$ 183.6

- Lower sales volume and lower market prices of used trucks on trade, primarily in Europe, decreased revenues by $27.0 million and related depreciation and other expenses by $25.2 million.
- Results on returned lease assets increased depreciation and other expenses by $68.2 million, primarily due to lower gains on sales of returned units as a result of lower used truck market values.
- Average operating lease assets decreased $237.3 million (excluding foreign exchange effects), which decreased revenues by $87.9 million and related depreciation and other expenses by $72.3 million.
- Revenue per asset increased $39.5 million primarily due to higher lease rates, reflecting higher average truck value financed and higher market rates. Cost per asset increased $20.3 million due to higher depreciation and operating expenses.
- The currency translation effects reflect an increase in the value of foreign currencies relative to the U.S. dollar, primarily the Mexican peso.

Financial Services SG&A for the third quarter of 2023 increased to $38.7 million from $33.3 million in the third quarter of 2022, and for the first nine months of 2023, Financial Services SG&A increased to $110.9 million from $100.9 million in 2022. The increase in both periods was primarily due to higher salaries and related expenses, higher travel costs and unfavorable currency translation effects, primarily the Mexican peso. As an annualized percentage of average earnings assets, Financial Services SG&A was .9% in the third quarter and first nine months of 2023 and 2022.

The following table summarizes the provision for losses on receivables and net charge-offs:

	Three Months Ended September 30, 2023		Nine Months Ended September 30, 2023	
($ in millions)	**PROVISION FOR LOSSES ON RECEIVABLES**	**NET CHARGE-OFFS**	**PROVISION FOR LOSSES ON RECEIVABLES**	**NET CHARGE-OFFS**
U.S. and Canada	**$ .9**	**$ 1.1**	**$ 2.0**	**$ 3.0**
Europe	**.5**	**.6**	**1.5**	**1.6**
Mexico, Australia, Brasil and other	**4.8**	**3.7**	**10.6**	**7.0**
	$ 6.2	**$ 5.4**	**$ 14.1**	**$ 11.6**

	Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
($ in millions)	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE-OFFS	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE-OFFS
U.S. and Canada	$ (1.1)	$ (.1)	$ (4.0)	$ (.8)
Europe	(.2)	(.3)	.1	.2
Mexico, Australia, Brasil and other	.5	(1.4)	7.7	(.1)
	$ (.8)	$ (1.8)	$ 3.8	$ (.7)

The provision for losses on receivables was $6.2 million in the third quarter of 2023 compared to ($.8) million in 2022, and in the first nine months, the provision for losses on receivables was $14.1 million in 2023 compared to $3.8 million in 2022. The increase in provision for losses for the third quarter and first nine months of 2023 compared to 2022 was driven by portfolio growth, lower recoveries and an increase in charges-offs, primarily Mexico and Brasil.

The Company modifies loans and finance leases as a normal part of its Financial Services operations. The Company may modify loans and finance leases for commercial reasons or for credit reasons. Modifications for commercial reasons are changes to contract terms for customers that are not considered to be in financial difficulty. Insignificant delays are modifications extending terms up to three months for customers experiencing some short-term financial stress, but not considered to be in financial difficulty. Modifications for credit reasons are changes to contract terms for customers considered to be in financial difficulty. The Company's modifications typically result in granting more time to pay the contractual amounts owed and charging a fee and interest for the term of the modification. When considering whether to modify customer accounts for credit reasons, the Company evaluates the creditworthiness of the customers and modifies those accounts that the Company considers likely to perform under the modified terms.

The post-modification balances of accounts modified during the nine months ended September 30, 2023 and 2022 are summarized below:

	2023		2022	
($ in millions)	**AMORTIZED COST BASIS**	**% OF TOTAL PORTFOLIO***	AMORTIZED COST BASIS	% OF TOTAL PORTFOLIO*
Commercial	**$ 134.5**	**1.4 %**	$ 158.3	2.1 %
Insignificant delay	**81.8**	**.9 %**	60.8	.8 %
Credit	**20.0**	**.2 %**	56.0	.7 %
	$ 236.3	**2.5 %**	$ 275.1	3.6 %

* Amortized cost basis immediately after modification as a percentage of ending retail portfolio, on an annualized basis.

Modification activity decreased to $236.3 million in the nine months of 2023 from $275.1 million in the same period of 2022. The decrease in modifications for Commercial reasons primarily reflects lower volumes of refinancing. Insignificant delay modifications, which are customers requesting payment relief for up to three months, were a comparable percentage of the total portfolio in the same period in the prior year. The decrease in Credit modifications, primarily reflects lower volumes of contract modifications in Brasil.

The following table summarizes the Company's 30+ days past due accounts:

	September 30 2023	December 31 2022	September 30 2022
Percentage of retail loan and lease accounts 30+ days past due:			
U.S. and Canada	**.4 %**	.1 %	.1 %
Europe	**1.4 %**	.2 %	.4 %
Mexico, Australia, Brasil and other	**1.5 %**	1.6 %	1.7 %
Worldwide	**.8 %**	.4 %	.4 %

Accounts 30+ days past due was .8% at September 30, 2023 compared to .4% at December 31, 2022 and .4% at September 30, 2022, primarily due to increases in the U.S. and Europe. The Company continues to focus on maintaining low past due balances.

When the Company modifies a 30+ days past due account, the customer is then generally considered current under the revised contractual terms. The Company modified $21.5 million of accounts worldwide during the third quarter of 2023, $8.9 million during the fourth quarter of 2022 and $16.2 million during the third quarter of 2022 that were 30+ days past due and became current at the time of modification. Had these accounts not been modified and continued to not make payments, the pro forma percentage of retail loan and lease accounts 30+ days past due would have been as follows:

	September 30 2023	December 31 2022	September 30 2022
Pro forma percentage of retail loan and lease accounts 30+ days past due:			
U.S. and Canada	**.4 %**	.1 %	.1 %
Europe	**1.4 %**	.2 %	.4 %
Mexico, Australia, Brasil and other	**2.1 %**	2.0 %	1.9 %
Worldwide	**.9 %**	.5 %	.5 %

Modifications of accounts in prior quarters that were more than 30 days past due at the time of modification are included in past dues if they were not performing under the modified terms at September 30, 2023, December 31, 2022 and September 30, 2022. The effect on the allowance for credit losses from such modifications was not significant at September 30, 2023, December 31, 2022 and September 30, 2022.

The Company's annualized pre-tax return on average assets for Financial Services was 2.7% in the third quarter of 2023 compared to 3.6% in the same period of 2022, was 3.1% for the first nine months in 2023 compared to 3.7% in the same period of 2022.

Other

Other includes the winch business as well as sales, income and expenses not attributable to a reportable segment. Other also includes non-service cost components of pension expense and a portion of corporate expense. Other sales represent less than 1% of consolidated net sales and revenues for both the third quarter and first nine months of 2023 and 2022. Other SG&A decreased to $10.7 million for the third quarter of 2023 from $24.1 million for the third quarter of 2022 and decreased to $63.1 million for the first nine months of 2023 compared to $66.6 million for the same period of 2022. The decrease in both periods was primarily due to lower corporate expenses.

For the third quarter, Other income (loss) before income taxes was $1.6 million compared to $8.0 million in 2022 primarily due to higher expenditures related to environmental activities. For the first nine months, Other (loss) income before tax was ($616.6) million compared to $14.9 million in 2022, primarily due to the EC-related charge in the first quarter of 2023 which is discussed in Note M of the consolidated financial statements.

Investment income for the third quarter increased to $80.8 million in 2023 compared to an investment income of $21.4 million in 2022. For the first nine months, investment income increased to $192.5 million in 2023 from $24.3 million in 2022. The higher investment income in the third quarter and the first nine months of 2023 was primarily due to higher market interest rates in all regions, as well as higher investment balances.

Income Taxes

The effective tax rate for the third quarter of 2023 was 22.7% compared to 21.5% for the third quarter of 2022. The higher effective tax rate in the third quarter of 2023 was primarily due to a higher mix of pre-tax income in jurisdictions with higher tax rates. The effective tax rate for the first nine months of 2023 was 21.9% and is comparable to 21.8% for the first nine months of 2022.

	Three Months Ended September 30		Nine Months Ended September 30	
($ in millions)	**2023**	2022	**2023**	2022
Domestic income before taxes	**$ 1,026.5**	$ 623.7	**$ 2,858.0**	$ 1,666.1
Foreign income before taxes	**562.9**	356.0	**1,218.9**	1,007.1
Total income before taxes	**$ 1,589.4**	$ 979.7	**$ 4,076.9**	$ 2,673.2
Domestic pre-tax return on revenues	**21.4 %**	15.3 %	**20.1 %**	14.6 %
Foreign pre-tax return on revenues	**14.4 %**	11.9 %	**10.3 %**	10.9 %
Total pre-tax return on revenues	**18.3 %**	13.9 %	**15.6 %**	12.9 %

For the third quarter and first nine months of 2023, domestic and foreign income before income taxes and pre-tax return on revenues increased primarily due to the improved results from Truck and Parts operations. In the first nine months of 2023, foreign income before income taxes and pre-tax return on revenues includes a one-time unfavorable adjustment for the EC-related charge of $600.0 million in the first quarter 2023.

LIQUIDITY AND CAPITAL RESOURCES:

($ in millions)	**September 30 2023**	December 31 2022
Cash and cash equivalents	**$ 5,906.3**	$ 4,690.9
Marketable securities	**1,743.1**	1,614.2
	$ 7,649.4	$ 6,305.1

The Company's total cash and marketable securities at September 30, 2023 increased $1,344.3 million from the balances at December 31, 2022. Total cash and marketable securities are primarily intended to provide liquidity while preserving capital.

The change in cash and cash equivalents is summarized below:

($ in millions) *Nine Months Ended September 30,*	**2023**	2022
Operating activities:		
Net income	**$ 3,183.5**	$ 2,090.3
Net income items not affecting cash	**577.4**	402.2
Changes in operating assets and liabilities, net	**(757.6)**	(714.3)
Net cash provided by operating activities	**3,003.3**	1,778.2
Net cash used in investing activities	**(1,931.1)**	(1,318.5)
Net cash provided by (used in) financing activities	**159.5**	(418.9)
Effect of exchange rate changes on cash and cash equivalents	**(16.3)**	(145.6)
Net increase (decrease) in cash and cash equivalents	**1,215.4**	(104.8)
Cash and cash equivalents at beginning of period	**4,690.9**	3,428.3
Cash and cash equivalents at end of period	**$ 5,906.3**	$ 3,323.5

Operating activities: Cash provided by operations increased by $1,225.1 million to $3,003.3 million in the first nine months of 2023 from $1,778.2 million in 2022. Higher operating cash flows reflects higher net income of $1,093.2 million and higher accruals of $709.8 million, including EC-related charge and product support liabilities. The higher operating cash flows were partially offset by higher cash outflows for income taxes of $392.3 million and higher cash usage of $429.0 million for wholesale receivables.

Investing activities: Cash used in investing activities increased by $612.6 million to $1,931.1 million in the first nine months of 2023 from $1,318.5 million in 2022. Higher net cash used in investing activities reflects higher net originations for retails loans and financing leases of $719.6 million and higher cash used in the acquisition of property, plant and equipment of $103.5 million. The higher net cash usage was partially offset by lower acquisitions of equipment for operating leases of $286.2 million.

Financing activities: Cash provided by financing activities was $159.5 million for the first nine months of 2023 compared to cash used in financing activities of $418.9 million in 2022. In the first nine months of 2023, the company paid $1.38 billion in dividends in 2023 compared to $875.9 million in 2022, primarily due to a higher year-end dividend paid in January 2023. Cash provided from borrowing activities was $1.50 billion, $1.06 billion higher than the cash provided by borrowing activities of $437.3 million in 2022 reflecting higher funding to support financial services portfolio growth.

Credit Lines and Other

The Company has line of credit arrangements of $3.98 billion, of which $3.51 billion were unused at September 30, 2023. Included in these arrangements are $3.00 billion of committed bank facilities, of which $1.00 billion expires in June 2024, $1.00 billion expires in June 2026 and $1.00 billion expires in June 2028. The Company intends to extend or replace these credit facilities on or before expiration to maintain facilities of similar amounts and duration. These credit facilities are maintained primarily to provide backup liquidity for commercial paper borrowings and maturing medium-term notes. There were no borrowings under the committed bank facilities for the nine months ended September 30, 2023.

On December 4, 2018, PACCAR's Board of Directors approved the repurchase of up to $500.0 million of the Company's outstanding common stock. As of September 30, 2023, the Company has repurchased $110.0 million of shares under this plan. There were no repurchases made under this plan during the first nine months of 2023.

Truck, Parts and Other

The Company provides funding for working capital, capital expenditures, R&D, dividends, stock repurchases and other business initiatives and commitments primarily from cash provided by operations. Management expects this method of funding to continue in the future.

Investments for manufacturing property, plant and equipment in the first nine months of 2023 were $471.7 million compared to $339.4 million for the same period of 2022. Over the past decade, the Company's combined investments in worldwide capital projects and R&D totaled $7.54 billion and have significantly increased the operating capacity and efficiency of its facilities and enhanced the quality and operating efficiency of the Company's premium products.

In 2023, total capital investments for PACCAR are expected to be $650 to $675 million and R&D is expected to be $410 to $420 million. In 2024, capital investments are projected to be $675 to $725 million and R&D is expected to be $470 to $520 million. The Company is increasing its investment in fuel efficient diesel and electric powertrain technologies, autonomous systems, connected vehicle services, and next-generation manufacturing and parts distribution capabilities.

Financial Services

The Company funds its financial services activities primarily from collections on existing finance receivables and borrowings in the capital markets. The primary sources of borrowings in the capital markets are commercial paper and medium-term notes issued in the public markets and, to a lesser extent, bank loans.

In November 2021, the Company's U.S. finance subsidiary, PACCAR Financial Corp. (PFC), filed a shelf registration under the Securities Act of 1933. The total amount of medium-term notes outstanding for PFC as of September 30, 2023 was $5.50 billion. The registration expires in November 2024 and does not limit the principal amount of debt securities that may be issued during that period.

As of September 30, 2023, the Company's European finance subsidiary, PACCAR Financial Europe, had €911.5 million available for issuance under a €2.50 billion medium-term note program listed on the Euro MTF Market of the Luxembourg Stock Exchange. This program has been renewed through the filing of a new listing, which expires in September 2024.

In August 2021, PACCAR Financial Mexico registered a 10.00 billion Mexican peso program with the Comision Nacional Bancaria y de Valores to issue medium-term notes and commercial paper. The registration expires in August 2026 and limits the amount of commercial paper (up to one year) to 5.00 billion Mexican pesos. At September 30, 2023, 6.24 billion Mexican pesos were available for issuance.

In August 2018, the Company's Australian subsidiary, PACCAR Financial Pty. Ltd. (PFPL Australia), established a medium-term note program. The program does not limit the principal amount of debt securities that may be issued under the program. The total amount of medium-term notes outstanding for PFPL Australia as of September 30, 2023 was 850.0 million Australian dollars.

In May 2021, the Company's Canadian subsidiary, PACCAR Financial Ltd. (PFL Canada), established a medium-term note program. The program does not limit the principal amount of debt securities that may be issued under the program. The total amount of medium-term notes outstanding for PFL Canada as of September 30, 2023 was 150.0 million Canadian dollars.

The Company believes its cash balances and investments, collections on existing finance receivables, committed bank facilities and current investment-grade credit ratings of A+/A1 will continue to provide it with sufficient resources and access to capital markets at competitive interest rates and therefore contribute to the Company maintaining its liquidity and financial stability. In the event of a decrease in the Company's credit ratings or a disruption in the financial markets, the Company may not be able to refinance its maturing debt in the financial markets. In such circumstances, the Company would be exposed to liquidity risk to the degree that the timing of debt maturities differs from the timing of receivable collections from customers. The Company believes its various sources of liquidity, including committed bank facilities, would continue to provide it with sufficient funding resources to service its maturing debt obligations.

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES:

This Form 10-Q includes "adjusted net income (non-GAAP)" and "adjusted net income per diluted share (non-GAAP)", which are financial measures that are not in accordance with U.S. generally accepted accounting principles ("GAAP"), since they exclude a charge for EC-related claims. These measures differ from the most directly comparable measures calculated in accordance with GAAP and may not be comparable to similarly titled non-GAAP financial measures used by other companies.

Adjustment for the EC-related claims relates to a pre-tax charge of $600.0 million ($446.4 million after-tax) for estimable total costs recorded in Interest and other (income) expense, net in the nine months ended September 30, 2023 (recorded in the first quarter 2023).

Management utilizes these non-GAAP measures to evaluate the Company's performance and believes these measures allow investors and management to evaluate operating trends by excluding a significant non-recurring charge that is not representative of underlying operating trends.

Reconciliations from the most directly comparable GAAP measures to adjusted net income (non-GAAP) and adjusted net income per diluted shares (non-GAAP) are as follows:

($ in millions, except per share amounts)	Nine Months Ended September 30, 2023
Net income	$ 3,183.5
EC-related claims, net of taxes	446.4
Adjusted net income (non-GAAP)	$ 3,629.9
Per diluted share	
Net income	$ 6.07
EC-related claims, net of taxes	.85
Adjusted net income (non-GAAP)	$ 6.92
After-tax return on revenues	12.2 %
EC-related claims, net of taxes	1.7 %
After-tax adjusted return on revenues (non-GAAP) *	13.9 %

* Calculated using adjusted net income.

FORWARD-LOOKING STATEMENTS:

This report contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements relating to future results of operations or financial position and any other statement that does not relate to any historical or current fact. Such statements are based on currently available operating, financial and other information and are subject to risks and uncertainties that may affect actual results. Risks and uncertainties include, but are not limited to: a significant decline in industry sales; competitive pressures; reduced market share; reduced availability of or higher prices for fuel; increased safety, emissions, or other regulations or tariffs resulting in higher costs and/or sales restrictions; currency or commodity price fluctuations; lower used truck prices; insufficient or under-utilization of manufacturing capacity; supplier interruptions; insufficient liquidity in the capital markets; fluctuations in interest rates; changes in the levels of the Financial Services segment new business volume due to unit fluctuations in new PACCAR truck sales or reduced market shares; changes affecting the profitability of truck owners and operators; price changes impacting truck sales prices and residual values; insufficient supplier capacity or access to raw materials and components, including semiconductors; labor disruptions; shortages of commercial truck drivers; increased warranty costs; cybersecurity risks to the Company's information technology systems; pandemics; climate-related risks; global conflicts; litigation, including European Commission (EC) settlement-related claims; or legislative and governmental regulations. A more detailed description of these and other risks is included under the headings Part I, Item 1A, “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 and in Part II, Item 1, “Legal Proceedings” and Part II, Item 1A, “Risk Factors” of this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in the Company's market risk during the three months ended September 30, 2023. For additional information, refer to Item 7A as presented in the 2022 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Principal Executive Officer and Principal Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the period covered by this report. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

There have been no changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to Note M – "Commitments and Contingencies" in the Notes to Consolidated Financial Statements (Part I, Item 1) for discussion on litigation matters, which is incorporated by reference herein.

ITEM 1A. RISK FACTORS

For information regarding risk factors, refer to Part I, Item 1A as presented in the 2022 Annual Report on Form 10-K. There have been no material changes in the Company's risk factors during the three months ended September 30, 2023.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES, USE OF PROCEEDS, AND ISSUER PURCHASES OF EQUITY SECURITIES

For Items 2(a) and (b), there was no reportable information for the three months ended September 30, 2023.

(c) Issuer purchases of equity securities.

On December 4, 2018, PACCAR's Board of Directors approved the repurchase of up to $500.0 million of the Company's outstanding common stock. As of September 30, 2023, the Company has repurchased $110.0 million of shares under this plan. There were no repurchases made under this plan during the first nine months of 2023.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None of the Company's directors or officers adopted, modified or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement during the Company's quarter ended September 30, 2023, as such terms are defined under Item 408(a) of Regulation S-K.

ITEM 6. EXHIBITS

Any exhibits filed herewith are listed in the accompanying index to exhibits.

INDEX TO EXHIBITS

Exhibit Number		Exhibit Description	Form	Date of First Filing	Exhibit Number	File Number
(3) (i)		Articles of Incorporation:				
		Amended and Restated Certificate of Incorporation of PACCAR Inc	8-K	May 4, 2018	3(i)	001-14817
		Certificate of Amendment of the Amended and Restated Certificate of Incorporation of PACCAR Inc	8-K	April 24, 2020	3(i)	001-14817
		Certificate of Amendment of the Amended and Restated Certificate of Incorporation of PACCAR Inc	8-K	April 29, 2022	3(i)	001-14817
(ii)		Bylaws:				
		Seventh Amended and Restated Bylaws of PACCAR Inc	8-K	July 26, 2022	3(ii)	001-14817
(4)		Instruments defining the rights of security holders, including indentures**:				
	(a)	Indenture for Senior Debt Securities dated as of November 20, 2009 between PACCAR Financial Corp. and The Bank of New York Mellon Trust Company, N.A.	S-3	November 20, 2009	4.1	333-163273
	(b)	Forms of Medium-Term Note, Series P (PACCAR Financial Corp.)	S-3	November 2, 2018	4.2 and 4.3	333-228141
	(c)	Forms of Medium-Term Note, Series Q (PACCAR Financial Corp.)	S-3	November 1, 2021	4.3 and 4.4	333-260663
	(d)	Terms and Conditions of the Notes applicable to the €2,500,000,000 Medium Term Note Programme of PACCAR Financial Europe B.V. set forth in the Information Memorandum dated May 29, 2020	10-Q	August 3, 2020	4(h)	001-14817
	(e)	Terms and Conditions of the Notes applicable to the €2,500,000,000 Medium Term Note Programme of PACCAR Financial Europe B.V. set forth in the Information Memorandum dated July 15, 2021	10-Q	August 2, 2021	4(g)	001-14817
	(f)	Terms and Conditions of the Notes applicable to the €2,500,000,000 Medium Term Note Programme of PACCAR Financial Europe B.V. set forth in the Information Memorandum dated July 13, 2022	10-Q	August 2, 2022	4(h)	001-14817
	(g)	Terms and Conditions of the Notes applicable to the €2,500,000,000 Medium Term Note Programme of PACCAR Financial Europe B.V. set forth in the Information Memorandum dated September 20, 2023*				
	(h)	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934	10-K	February 19, 2020	4(j)	001-14817

** Pursuant to the Instructions to Exhibits, certain instruments defining the rights of holders of long-term debt securities of the Company and its wholly owned subsidiaries are not filed because the total amount of securities authorized under any such instrument does not exceed 10 percent of the Company's total assets. The Company will file copies of such instruments upon request of the Commission.

Exhibit Number		Exhibit Description	Form	Date of First Filing	Exhibit Number	File Number
(10)		Material Contracts:				
	(a)	PACCAR Inc Amended and Restated Supplemental Retirement Plan	10-K	February 27, 2009	10(a)	001-14817
	(b)	Amended and Restated Deferred Compensation Plan	10-Q	May 10, 2012	10(b)	001-14817
	(c)	Deferred Incentive Compensation Plan (Amended and Restated as of December 31, 2004)	10-K	February 27, 2006	10(b)	001-14817
	(d)	Second Amended and Restated PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors	10-K	February 22, 2023	10(d)	001-14817
	(e)	PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors, Form of Deferred Restricted Stock Unit Agreement for Non-Employee Directors	8-K	December 10, 2007	99.3	001-14817
	(f)	Amendment to Compensatory Arrangement with Non-Employee Directors	10-K	February 26, 2015	10(g)	001-14817
	(g)	PACCAR Inc Senior Executive Yearly Incentive Compensation Plan	10-K	February 19, 2020	10(g)	001-14817
	(h)	PACCAR Inc Long Term Incentive Plan	10-K	February 22, 2023	10(h)	001-14817
	(i)	Amendment One to PACCAR Inc Long Term Incentive Plan, Nonstatutory Stock Option Agreement and Form of Option Grant Agreement	10-Q	August 7, 2013	10(k)	001-14817
	(j)	PACCAR Inc Long Term Incentive Plan, 2018 Form of Restricted Stock Award Agreement	10-K	February 21, 2019	10(m)	001-14817
	(k)	PACCAR Inc Long Term Incentive Plan, Form of Restricted Stock Unit Agreement	10-K	February 21, 2019	10(n)	001-14817
	(l)	PACCAR Inc Savings Investment Plan, Amendment and Restatement effective September 1, 2016	10-Q	November 4, 2016	10(q)	001-14817
	(m)	Second Amended and Restated PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors, Form of Amended Deferred Restricted Stock Unit Grant Agreement	10-K	February 26, 2015	10(t)	001-14817
	(n)	Second Amended and Restated PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors, Form of Amended Restricted Stock Grant Agreement	10-K	February 26, 2015	10(u)	001-14817
(31)		Rule 13a-14(a)/15d-14(a) Certifications:				
	(a)	Certification of Principal Executive Officer*				
	(b)	Certification of Principal Financial Officer*				
(32)		Section 1350 Certifications:				
		Certification pursuant to rule 13a-14(b) and section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. section 1350)*				
(101.INS)		Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number	File Number
(101.SCH)	Inline XBRL Taxonomy Extension Schema Document*				
(101.CAL)	Inline XBRL Taxonomy Extension Calculation Linkbase Document*				
(101.DEF)	Inline XBRL Taxonomy Extension Definition Linkbase Document*				
(101.LAB)	Inline XBRL Taxonomy Extension Label Linkbase Document*				
(101.PRE)	Inline XBRL Taxonomy Extension Presentation Linkbase Document*				
(104)	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)*				

* filed herewith

SIGNATURE

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.

PACCAR Inc
(Registrant)

Date November 2, 2023

By /s/ B. J. Poplawski
B. J. Poplawski
Vice President and Controller
(Authorized Officer and Chief Accounting Officer)

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as completed by the relevant Pricing Supplement, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below. All capitalized terms that are not defined in the terms and conditions shall have the meanings given to them in the relevant Pricing Supplement. References in the terms and conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

1. Introduction

(a) *Programme*: PACCAR Financial Europe B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of The Netherlands, having its corporate seat in Eindhoven (the "**Issuer**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of up to €2,500,000,000 in aggregate principal amount of notes (the "**Notes**").

(b) *Pricing Supplement*: Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of a Pricing Supplement (the "**Pricing Supplement**") which completes these terms and conditions (the "**Conditions**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as completed by the relevant Pricing Supplement.

(c) *Agency Agreement*: The Notes are the subject of and issued pursuant to agency agreement dated 29 May 2020 (the "**Agency Agreement**") between the Issuer and BNP Paribas Securities Services, Luxembourg Branch as fiscal agent (the "**Fiscal Agent**," which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**," which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and with the benefit of a deed of covenant executed by the Issuer dated 11 May 2015 (the "**Deed of Covenant**") in relation to the Notes.

(d) *The Notes*: All subsequent references in these Conditions to "**Notes**" are to the Notes that are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available during normal business hours at the Specified Office of the Fiscal Agent, the initial Specified Offices of which are set out below.

(e) *Summaries*: Certain provisions of these Conditions are summaries of the Agency Agreement and are subject to their detailed provisions. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**," respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the Specified Offices of each of the Paying Agents, the initial Specified Offices of which are set out below.

2. Interpretation

(a) *Definitions*: In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" means the amount as specified in the relevant Pricing Supplement;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Adjustment Spread**" means either a spread (which may be positive or negative), or the formula or methodology for calculating a spread, in either case, which the Issuer, following consultation with the Independent Adviser and acting in good faith, determines is required to be applied to the Successor Rate or the Alternative Rate (as the case may be), as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or

(ii) (if no such recommendation has been made, or in the case of an Alternative Rate), is customarily applied to the relevant Successor Rate or Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or

(iii) (in the case of an Alternative Rate), is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); or

(iv) (if the Issuer determines that no such customary market usage is recognised or acknowledged) the Issuer determines to be appropriate to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Holders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be).

"**Alternative Rate**" means an alternative to the Reference Rate which the Issuer determines in accordance with Condition 7(h)(ii) has replaced the Original Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) for the same interest period and in the same Specified Currency as the Notes or, if the Independent Adviser determines there is no such rate, such other rate as the Issuer determines (following consultation with the Independent Adviser and acting in good faith) is most comparable to the relevant Reference Rate;

"**Benchmark Amendments**" has the meaning given to it in Condition 7(h)(iv);

"**Benchmark Event**" means:

(v) the Original Reference Rate has ceased to be published on the Relevant Screen Page as a result of such benchmark ceasing to be calculated or administered; or

(vi) a public statement by the administrator of the Original Reference Rate that (in circumstances where no successor administrator has been or will be appointed that will continue publication of such Original Reference Rate) it has ceased publishing such Original Reference Rate permanently or indefinitely or that it will cease to do so by a specified future date (the "**Specified Future Date**"); or

(vii) a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will, by a Specified Future Date, be permanently or indefinitely discontinued; or

(viii) a public statement by the supervisor of the administrator of the Original Reference Rate that means the Original Reference Rate will, by a Specified Future Date, be prohibited from being used or that its use will be subject to restrictions or adverse consequences, either generally or in respect of the Notes;

(ix) a public statement by the supervisor of the administrator of the Original Reference Rate that, in the view of such supervisor, such Original Reference Rate is no longer representative of an underlying market; or

(x) it has or will by a specified date within the following six months, become unlawful for any Paying Agent, Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder using the Original Reference Rate (including, without limitation, under the Benchmark Regulations, if applicable);

Notwithstanding the sub-paragraphs above, where the relevant Benchmark Event is a public statement within sub-paragraphs (ii), (iii) or (iv) above and the Specified Future Date in the public statement is more than six months after the date of that public statement, the Benchmark Event shall not be deemed to occur until the date falling six months prior to such Specified Future Date.

"**Benchmark Regulations**" shall mean Regulation (EU) No. 2016/1011 (the "**EU Benchmark Regulation**") and the EU Benchmark Regulation as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018;

"**Business Day**" means:

(xi) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and

(xii) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

"**Business Day Convention**" means, in relation to any particular date, the business day convention specified in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(xiii) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(xiv) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day save in respect of Notes for which the Reference Rate is SOFR, for which the final Interest Payment Date will not be postponed and interest on that payment will not accrue during the period from and after the scheduled final Interest Payment Date;

(xv) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(xvi) "**FRN Convention**," "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:

(A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(xvii) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means the Fiscal Agent or such other Person specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

"**Calculation Amount**" means the amount specified in the relevant Pricing Supplement;

"**Consolidated Assets**" means the aggregate amount of assets (less applicable reserves for depreciation, amortization, unearned finance charges, allowance for credit losses and other properly deductible items) after deducting therefrom all goodwill, trade names, trademarks, patents, organization expenses and other like intangibles, all as set forth on the most recent balance sheet of the Issuer and its Subsidiaries and computed in accordance with generally accepted accounting principles;

"**Coupon Sheet**" means, in respect of a Note, a coupon sheet relating to the Note;

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the relevant Pricing Supplement and:

(xviii) if "**Actual/Actual (ICMA)**" is so specified, means:

(a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(b) where the Calculation Period is longer than one Regular Period, the sum of:

(A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;

(xix) if "**Actual/365**" or "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(xx) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;

(xxi) if "**Sterling/FRN**" is so specified, means the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(xxii) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(xxiii) if "**30/360**" is so specified, means the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (i) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

(xxiv) if "**30E/360**" or "**Eurobond Basis**" is so specified means, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of the final Calculation Period, the date of final maturity is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month);

"**Early Redemption Amount (Tax)**" means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Pricing Supplement;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in the Pricing Supplement and/or determined in accordance with these Conditions;

"**EURIBOR**" means, in respect of any specified currency and any specified period, the interest rate benchmark known as the Euro zone interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of the European Money Markets Institute (or any person which takes over administration of that rate;

"**Extraordinary Resolution**" has the meaning given in the Agency Agreement;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Pricing Supplement;

"**First Interest Payment Date**" means the date specified in the relevant Pricing Supplement;

"**Fixed Coupon Amount**" means the amount specified in the relevant Pricing Supplement;

"**Indebtedness**" means any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by the Issuer;

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer under Condition 7(h)(i);

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Pricing Supplement;

"**Interest Determination Date** XE "Interest Determination Date" ", in respect of any Interest Period, has the meaning given to it in the relevant Pricing Supplement or:

(a) in the case of Floating Rate Notes where the "Reference Rate" is specified in the relevant Pricing Supplement as being "SONIA", means the date falling "p" London Banking Days prior to the Interest Payment Date for such Interest Period (or the date falling "p" London Banking Days prior to such earlier date, if any, on which the Notes are due and payable);

(b) in the case of Floating Rate Notes where the "Reference Rate" is specified in the relevant Pricing Supplement as being "SOFR", means the date falling "p" U.S. Government Securities Business Days prior to the Interest Payment Date for such Interest Period (or the date falling "p" U.S. Government Securities Business Days prior to such earlier date, if any, on which the Notes are due and payable);

(c) in the case of Floating Rate Notes where the "Reference Rate" is specified in the relevant Pricing Supplement as being "€STR", means the date falling "p" TARGET Settlement Days prior to the Interest Payment Date for such Interest Period (or the date falling "p" TARGET Settlement Days prior to such earlier date, if any, on which the Notes are due and payable).

"**Interest Payment Date**" means the First Interest Payment Date and any other date or dates specified as such in the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

(xxv) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(xxvi) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the First Interest Payment Date) or the previous Interest Payment Date (in any other case);

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"**ISDA Benchmarks Supplement**" means the Benchmarks Supplement (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement)) published by the International Swaps and Derivatives Association, Inc;

"**ISDA Definitions**" means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement) as published by the International Swaps and Derivatives Association, Inc.) or, if so specified in the relevant Pricing Supplement, the 2000 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement) as published by the International Swaps and Derivatives Association, Inc.);

"**Issue Date**" means the date specified in the relevant Pricing Supplement;

"**Liens**" means any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, including but not limited to a security interest arising from a mortgage, encumbrance, pledge, conditional sale or trust receipt, or a lease, consignment or bailment for security purposes. For the purposes of this definition, a Person shall be deemed to be the owner of any Property which it has or holds subject to a conditional sale arrangement, financing lease or other arrangement pursuant to which title to the Property has been retained by or is vested in some other Person for security purposes;

"**Margin**" means the margin specified in the relevant Pricing Supplement;

"**Maturity Date**" means the date specified in the relevant Pricing Supplement;

"**Maximum Rate of Interest**" has the meaning given in the relevant Pricing Supplement;

"**Maximum Redemption Amount**" means the amount specified in the relevant Pricing Supplement;

"**Minimum Rate of Interest**" has the meaning given in the relevant Pricing Supplement;

"**Minimum Redemption Amount**" means the amount specified in the relevant Pricing Supplement;

"**Optional Redemption Amount (Call)**" means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Pricing Supplement;

"**Optional Redemption Amount (Put)**" means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Pricing Supplement;

"**Optional Redemption Date (Call)**" means the date specified in the relevant Pricing Supplement;

"**Optional Redemption Date (Put)**" means the date specified in the relevant Pricing Supplement;

"**Original Reference Rate**" means the originally-specified Reference Rate used to determine the Rate of Interest (or any component part thereof) on the Notes;

"**Participating Member State**" means a Member State of the European Union that adopts the euro as its lawful currency in accordance with the Treaty;

"**Payment Business Day**" means:

(xxvii) if the currency of payment is euro, any day which is:

(A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(B) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(xxviii) if the currency of payment is not euro, any day which is:

(A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organization, state or agency of a state or other entity, whether or not having separate legal personality;

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency *provided, however, that* in relation to euro, it means the principal financial centre of such Member State of the European Union as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

"**Property**" means any kind of property or asset, whether real, personal or mixed, tangible or intangible;

"**Put Option Notice**" means a notice that must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Put Option Receipt**" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Pricing Supplement and/or calculated or determined in accordance with the provisions of these Conditions;

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in the relevant Pricing Supplement;

"**Reference Banks**" means the reference banks specified in the relevant Pricing Supplement or, if none, four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

"**Reference Price**" means the reference price specified in the relevant Pricing Supplement;

"**Reference Rate**" means EURIBOR, SONIA, SOFR or €STR as specified in the relevant Pricing Supplement in respect of the currency and period specified in the relevant Pricing Supplement. Other than in the case of U.S. dollar-denominated floating rate Notes for which the "Reference Rate" is specified in the relevant Final Terms as being SOFR, the term Reference Rate shall, following the occurrence of a Benchmark Event under Condition 7(h) (*Benchmark Discontinuation*), include any Successor Rate or Alternative Rate and shall, if a Benchmark Event should occur subsequently in respect of any such Successor Rate or Alternative Rate, also include any further Successor Rate or further Alternative Rate;

"**Regular Period**" means:

(xxix) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the First Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(xxx) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and

(xxxi) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

"**Relevant Date**" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

"**Relevant Financial Centre**" means (i) the financial centre specified as such in the relevant Pricing Supplement (ii) or, in the case of a determination of EURIBOR and none is otherwise specified, Brussels;

"**Relevant Nominating Body**" means, in respect of a Reference Rate:

(xxxii) the central bank, reserve bank, monetary authority and any similar institution for the currency to which the Reference Rate relates, or any other central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate; or

(xxxiii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank, reserve bank, monetary authority and any similar institution for the currency to which the Reference Rate relates, (b) any other central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate, (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof;

"**Relevant Screen Page**" means the page, section or other part of a particular information service (or any successor or replacement page, section or other part of a particular information service, including, without limitation, the Reuter Money 3000 Service) specified as the Relevant Screen Page in the relevant Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" means the time specified in the relevant Pricing Supplement;

"**Reserved Matter**" means any proposal

(xxxiv) to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment;

(xxxv) to effect the exchange or substitution of the Notes for, or the conversation of the Notes into, shares bonds or other obligations or securities of the Issuer or any other Person or body corporate formed or to be formed;

(xxxvi) to change the currency in which amounts due in respect of the Notes are payable;

(xxxvii) to change the quorum required at any Meeting or the majority required to pass an Extraordinary Resolution; or

(xxxviii) to amend this definition;

"**Restricted Debt**" when used with respect to the Issuer or any Subsidiary of the Issuer, means any present or future indebtedness for money borrowed evidenced by any note, bond, debenture or other evidence of indebtedness for money borrowed which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the counter market), for which the Issuer or such Subsidiary of the Issuer is liable, directly or indirectly, absolutely or contingently. Restricted Debt shall not include any indebtedness for the payment, redemption or satisfaction of which money (or other Property permitted under the instrument creating or evidencing such indebtedness) in the necessary amount shall have been deposited in trust with a trustee or proper depository at or before the maturity or redemption date thereof. For the purposes of this definition, "indebtedness for money borrowed" shall include, without limitation, obligations created or arising under any conditional sale, financing lease, or other title retention agreement and obligations to pay for Property;

"**Specified Currency**" means the currency specified in the relevant Pricing Supplement;

"**Specified Denomination(s)**" means the denomination(s) specified in the relevant Pricing Supplement;

"**Specified Office**" has the meaning given in the Agency Agreement;

"**Specified Period**" means the period specified in the relevant Pricing Supplement;

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(xxxix) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(xl) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body;

"**Talon**" means a talon for further Coupons;

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilizes a single shared platform, and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro;

"**Treaty**" means the Treaty on the Functioning of the European Union, as amended; and

"**Zero Coupon Note**" means a Note specified as such in the relevant Pricing Supplement.

(b) *Interpretation*: In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 11 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 11 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(vi) references to Notes being "outstanding" shall be construed in accordance with the Agency Agreement;

(vii) if an expression is stated in Condition 2(a) to have a meaning as specified in the relevant Pricing Supplement, but the relevant Pricing Supplement does not so specify or specifies that such expression is "not applicable" then such expression is not applicable to the Notes;

(viii) any reference to the Agency Agreement shall be construed as a reference to the Agency Agreement as amended and/or supplemented up to and including the Issue Date of the Notes; and

(ix) any reference in these Conditions to any legislation shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted.

3. **Form, Denomination and Title**

The Notes are in bearer form in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Notes with more than one Specified Denomination, Notes of one Specified Denomination will not be exchangeable for Notes of another Specified Denomination. The minimum Specified Denomination shall be €1,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes). Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such holder. No Person shall have any right to enforce any term or condition of any Note under the *Contracts (Rights of Third Parties) Act 1999*.

4. **Status of Notes**

The Notes constitute direct, general, unconditional, unsubordinated and (without prejudice to the provisions of Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application and subject to Condition 5 (*Negative Pledge*).

5. **Negative Pledge**

After the date hereof, the Issuer will not itself, and will not permit any Subsidiary of the Issuer to, create, incur or suffer to exist, any Lien on any Property of the Issuer or any Subsidiary of the Issuer securing any Restricted Debt, without effectively providing that the Notes (together with, if the Issuer shall so determine, any other indebtedness of the Issuer or such Subsidiary then existing or thereafter created) shall be secured equally and rateably with (or, at the option of the Issuer, prior to) such secured Restricted Debt, so long as such secured Restricted Debt shall be so secured, unless, after giving effect thereto, the aggregate amount of all Restricted Debt of the Issuer and its Subsidiaries secured by Liens on Property of the Issuer and its Subsidiaries would not exceed 15 per cent. of Consolidated Assets; *provided, however, that* this Condition 5 shall not apply to, and there shall be excluded from Restricted Debt secured by Liens in any computation under this Condition 5, Restricted Debt secured only by:

(i) Liens on Property of, or on any shares of capital stock of, any corporation existing at the time such corporation becomes a Subsidiary of the Issuer;

(ii) Liens in favour of the Issuer or any Subsidiary of the Issuer or Liens securing any indebtedness of a Subsidiary to the Issuer or of the Issuer or a Subsidiary to a Subsidiary of the Issuer;

(iii) Liens in favour of any governmental body (or surety for any governmental body) to secure progress, advance or other payments pursuant to any contract or provision of any statute or rule of court;

(iv) Liens of any other creditors on Property repossessed in the ordinary course of business which comprises collateral security for defaulted indebtedness or additional Liens created on any such Property for the purpose of protecting the interest of the Issuer therein;

(v) A banker's Lien or other right of offset in favour of any lender or other holder of Restricted Debt on money deposited with such lender or holder in the ordinary course of business;

(vi) Liens on Property and rentals therefrom existing at the time of acquisition thereof, or to secure the payment of all or any part of the purchase price thereof or construction thereon or to secure any Restricted Debt incurred prior to, at the time of, or within 180 days after the later of the acquisition of such Property of the completion of construction for the purpose of financing all or any part of the purchase price thereof or construction thereon; or

(vii) Any extension, renewal or replacement (or successive extensions, renewals or replacements), as a whole or in part, of any Lien referred to in the foregoing clauses (i) through (vi), inclusive; *provided, however, that* such extension, renewal or replacement Lien shall be limited to all or part of the same Property that secured the Lien extended, renewed or replaced (plus improvements on such Property).

For purposes of this Condition 5 an "acquisition" of Property shall include any transaction or Series of transactions by which the Issuer or a Subsidiary of the Issuer acquires, directly or indirectly, an interest, or an additional interest (to the extent thereof), in such Property, including without limitation an acquisition through merger or consolidation with, or an acquisition of an interest in, a Person owning an interest in such Property.

6. Fixed Rate Note Provisions

(a) *Application:* This Condition 6 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Fixed Coupon Amount*: The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) *Calculation of interest amount*: The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose, a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. Floating Rate Note Provisions and Benchmark Replacement

(a) *Application:* This Condition 7 (*Floating Rate Note Provisions and Benchmark Replacement*) is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Screen Rate Determination*: If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, other than in respect of Notes for which SONIA, SOFR and/or €STR or any related index is specified as the Reference Rate, the Rate of Interest applicable to the Notes for each Interest Period will be (subject to Condition 7(h) (*Floating Rate Note Provisions and Benchmark Replacement – Benchmark Discontinuation*) and 7(i) (*Floating Rate Note Provisions and Benchmark Replacement – Maximum and Minimum Rate of Interest*)) determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the relevant Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:

(A) one rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next longer than the length of the relevant Interest Period;

provided, however, that if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate;

(iii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iv) unless the Calculation Agent has been notified pursuant to Condition 7(h)(v) (*Benchmark Discontinuation – Notices, etc.*), if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(v) unless the Calculation Agent has been notified pursuant to Condition 7(h)(v) (*Benchmark Discontinuation – Notices, etc.*), if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent or, where the Fiscal Agent is named as the Calculation Agent in the relevant Pricing Supplement, the Issuer, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; *provided, however, that* if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

(d) *Screen Rate Determination - Floating Rate Notes referencing SONIA*

(i) This Condition 7(d) is only applicable to the Notes if Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, and the "Reference Rate" is specified in the relevant Pricing Supplement as being "SONIA".

(ii) The Rate of Interest for each Interest Period will, subject as provided below, be Compounded Daily SONIA plus or minus (as specified in the relevant Pricing Supplement) the Margin, all as determined by the Calculation Agent.

(iii) For the purposes of this Condition 7(d):

"**Compounded Daily SONIA**", with respect to an Interest Period, will be calculated by the Calculation Agent on each Interest Determination Date in accordance with the following formula, and the resulting percentage will be rounded, if necessary, to the fourth decimal place, with 0.00005 being rounded upwards:

i= 1do1+ SONIAi x niD-1x Dd

"**d**" means the number of calendar days in:

(i) where "Lag" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Interest Period; or

(ii) where "Observation Shift" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Observation Period;

"**D**" is the number specified in the relevant Pricing Supplement (or, if no such number is specified, 365);

"$\mathbf{d_o}$" means the number of London Banking Days in:

(i) where "Lag" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Interest Period; or

(ii) where "Observation Shift" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Observation Period;

"**i**" means a series of whole numbers from one to d_o, each representing the relevant London Banking Day in chronological order from, and including, the first London Banking Day in:

(i) where "Lag" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Interest Period; or

(ii) where "Observation Shift" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Observation Period;

to, and including, the last London Banking Day in such period;

"**London Banking Day**" means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;

"$\mathbf{n_i}$" for any London Banking Day "i", in the relevant Interest Period or Observation Period (as applicable) is the number of calendar days from, and including, such London Banking Day "i" up to, but excluding, the following London Banking Day;

"Observation Period" means, in respect of an Interest Period, the period from, and including, the date falling "p" London Banking Days prior to the first day of such Interest Period (and the first Interest Period shall begin on and include the Interest Commencement Date) and ending on, but excluding, the date which is "p" London Banking

Days prior to the Interest Payment Date for such Interest Period (or the date falling "p" London Banking Days prior to such earlier date, if any, on which the Notes become due and payable);

"**p**" for any Interest Period or Observation Period (as applicable), means the number of London Banking Days specified as the "Lag Period" or the "Observation Shift Period" (as applicable) in the relevant Pricing Supplement;

"**SONIA Reference Rate**" means, in respect of any London Banking Day, a reference rate equal to the daily Sterling Overnight Index Average ("**SONIA**") rate for such London Banking Day as provided by the administrator of SONIA to authorised distributors and as then published on the Relevant Screen Page (or if the Relevant Screen Page is unavailable, as otherwise is published by such authorised distributors) on the London Banking Day immediately following such London Banking Day; and

"**$SONIA_i$**" means the SONIA Reference Rate for:

(i) where "Lag" is specified as the Observation Method in the relevant Pricing Supplement, the London Banking Day falling "p" London Banking Days prior to the relevant London Banking Day "i"; or

(ii) where "Observation Shift" is specified as the Observation Method in the relevant Pricing Supplement, the relevant London Banking Day "i";

(iv) If, in respect of any London Banking Day in the relevant Interest Period or Observation Period (as applicable), the Calculation Agent determines that the SONIA Reference Rate is not available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, such SONIA Reference Rate shall, subject to Condition 7(h) (*Benchmark Discontinuation*), be:

(A) the Bank of England's Bank Rate (the "**Bank Rate**") prevailing at close of business on the relevant London Banking Day *plus* the mean of the spread of the SONIA Reference Rate to the Bank Rate over the previous five London Banking Days on which a SONIA Reference Rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads) to the Bank Rate; or

(B) if the Bank Rate is not published by the Bank of England at close of business on the relevant London Banking Day, (a) the SONIA Reference Rate published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors) for the first preceding London Banking Day on which the SONIA Reference Rate was published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors) or (b) if this is more recent, the latest determined rate under (A).

(v) Subject to Condition 7(h) (*Benchmark Discontinuation*), if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this Condition 7(d), the Rate of Interest shall be (A) that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period) or (B) if there is no such preceding Interest Determination Date, the initial Rate of Interest which would have been applicable to the Notes for the first Interest Period had the Notes been in issue for a period equal in duration to the scheduled first Interest Period but ending on (and excluding) the Interest Commencement Date (but applying the Margin applicable to the first Interest Period).

(e) *Screen Rate Determination - Floating Rate Notes referencing SOFR*

(i) This Condition 7(e) is only applicable to the Notes if Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, and the "Reference Rate" is specified in the relevant Pricing Supplement as being "SOFR".

(ii) The Rate of Interest for each Interest Period will, subject as provided below, be the Benchmark plus or minus (as specified in the relevant Pricing Supplement) the Margin, all as determined by the Calculation Agent on each Interest Determination Date.

(iii) For the purposes of this Condition7(e):

"**Benchmark**" means Compounded SOFR, which is a compounded average of daily SOFR, as determined for each Interest Period in accordance with the specific formula and other provisions set out in this Condition 7(e).

"**Compounded SOFR**" with respect to any Interest Period, means the rate of return of a daily compound interest investment computed in accordance with the following formula (and the resulting percentage will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards to 0.00001):

i=1do1+ SOFRi x niD-1 x Dd

"**d**" is the number of calendar days in:

(i) where "Lag" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Interest Period; or

(ii) where "Observation Shift" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Observation Period.

"**D**" is the number specified in the relevant Pricing Supplement (or, if no such number is specified, 360);

"$\mathbf{d_o}$" is the number of U.S. Government Securities Business Days in:

(i) where "Lag" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Interest Period; or

(ii) where "Observation Shift" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Observation Period.

"**i**" is a series of whole numbers from one to d_o, each representing the relevant U.S. Government Securities Business Day in chronological order from, and including, the first U.S. Government Securities Business Day in:

(i) where "Lag" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Interest Period; or

(ii) where "Observation Shift" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Observation Period,

to and including the last U.S. Government Securities Business Day in such period;

"$\mathbf{n_i}$" for any U.S. Government Securities Business Day "i" in the relevant Interest Period or Observation Period (as applicable), is the number of calendar days from, and including, such U.S. Government Securities Business Day "i" to, but excluding, the following U.S. Government Securities Business Day ("**i+1**");

"**Observation Period**" in respect of an Interest Period means the period from, and including, the date falling "p" U.S. Government Securities Business Days preceding the first day in such Interest Period (and the first Interest Period shall begin on and include the Interest Commencement Date) and ending on, but excluding, the date falling "p" U.S. Government Securities Business Days preceding the Interest Payment Date for such Interest Period (or the date falling "p" U.S. Government Securities Business Days prior to such earlier date, if any, on which the Notes become due and payable);

"**p**" for any Interest Period or Observation Period (as applicable) means the number of U.S. Government Securities Business Days specified as the "Lag Period" or the "Observation Shift Period" (as applicable) in the relevant Pricing Supplement;

"**SOFR**" with respect to any U.S. Government Securities Business Day, means:

(i) the Secured Overnight Financing Rate published for such U.S. Government Securities Business Day as such rate appears on the SOFR Administrator's Website at 3:00 p.m. (New York time) on the immediately following U.S. Government Securities Business Day (the "**SOFR Determination Time**"); or

(ii) Subject to Condition 7(e)(iv) below, if the rate specified in (i) above does not so appear, the Secured Overnight Financing Rate as published in respect of the first preceding U.S. Government Securities Business Day for which the Secured Overnight Financing Rate was published on the SOFR Administrator's Website;

"**SOFR Administrator**" means the Federal Reserve Bank of New York (or a successor administrator of the Secured Overnight Financing Rate);

"**SOFR Administrator's Website**" means the website of the Federal Reserve Bank of New York, or any successor source;

"**$SOFR_i$**" means the SOFR for:

(i) where "Lag" is specified as the Observation Method in the relevant Pricing Supplement, the U.S. Government Securities Business Day falling "p" U.S. Government Securities Business Days prior to the relevant U.S. Government Securities Business Day "i"; or

(ii) where "Observation Shift" is specified as the Observation Method in the relevant Pricing Supplement, the relevant U.S. Government Securities Business Day "i"; and

"**U.S. Government Securities Business Day**" means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(iv) If the Issuer determines on or prior to the relevant Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the then-current Benchmark, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Notes in respect of all determinations on such date and for all determinations on all subsequent dates. In connection with the implementation of a Benchmark Replacement, the Issuer will have the right to make Benchmark Replacement Conforming Changes from time to time, without any requirement for the consent or approval of the Noteholders

Any determination, decision or election that may be made by the Issuer (or its Independent Adviser) pursuant to this condition, including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection:

(i) will be conclusive and binding absent manifest error;

(ii) will be made in the sole discretion of the Issuer or its Independent Adviser; and

(iii) notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from the Noteholders or any other party.

For the purposes of this condition 7(e)(iv):

"**Benchmark**" means, initially, Compounded SOFR, as such term is defined above; *provided that* if the Issuer determines on or prior to the Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to Compounded SOFR (or the published daily SOFR used in the calculation thereof) or the then-current Benchmark, then “Benchmark” shall mean the applicable Benchmark Replacement;

"**Benchmark Replacemen**t" means the first alternative set forth in the order below that can be determined by the Issuer or its Independent Adviser as of the Benchmark Replacement Date:

(iv) the sum of: (A) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark and (B) the Benchmark Replacement Adjustment;

(v) the sum of: (A) the ISDA Fallback Rate and (B) the Benchmark Replacement Adjustment; or

(vi) the sum of: (A) the alternate rate of interest that has been selected by the Issuer or its Independent Adviser as the replacement for the then-current Benchmark giving due consideration to any industry-accepted rate of interest as a replacement for the then-current Benchmark for U.S. dollar-denominated floating rate notes at such time and (B) the Benchmark Replacement Adjustment;

"**Benchmark Replacement Adjustment**" means the first alternative set forth in the order below that can be determined by the Issuer or its Independent Adviser as of the Benchmark Replacement Date:

(vii) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;

(viii) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment; or

(ix) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer or its Independent Adviser giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated floating rate notes at such time;

"**Benchmark Replacement Conforming Changes**" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) that the Issuer or its Independent Adviser decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer or its Independent Adviser decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer or its Independent Adviser determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer determines is reasonably necessary);

"**Benchmark Replacement Date**" means the earliest to occur of the following events with respect to the then-current Benchmark (including the daily published component used in the calculation thereof):

(x) in the case of clause (i) or (ii) of the definition of "Benchmark Transition Event", the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component thereof); or

(xi) in the case of clause (iii) of the definition of "Benchmark Transition Event", the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event that gives rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination;

"**Benchmark Transition Event**" means the occurrence of one or more of the following events with respect to the then-current Benchmark (including the daily published component used in the calculation thereof):

(xii) a public statement or publication of information by or on behalf of the administrator of the Benchmark (or such component thereof) announcing that such administrator has ceased or will cease to provide the Benchmark (or such component thereof), permanently or indefinitely, *provided that*, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component thereof); or

(xiii) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark (or such component thereof), the central bank for the currency of the Benchmark (or such component thereof), an insolvency official with jurisdiction over the administrator for the Benchmark (or such component thereof), a resolution authority with jurisdiction over the administrator for the Benchmark (or such component thereof) or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark (or such component thereof) has ceased or will cease to provide the Benchmark (or such component thereof) permanently or indefinitely, *provided that*, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component thereof); or

(xiv) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative;

"**ISDA Fallback Adjustment**" means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark;

"**ISDA Fallback Rate**" means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

"**Reference Time**" with respect to any determination of the Benchmark means (i) if the Benchmark is Compounded SOFR, the SOFR Determination Time, and (ii) if the Benchmark is not Compounded SOFR, the time determined by the Issuer or its Independent Adviser after giving effect to the Benchmark Replacement Conforming Changes;

"**Relevant Governmental Body**" means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto; and

"**Unadjusted Benchmark Replacement**" means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

(v) Any Benchmark Replacement, Benchmark Replacement Adjustment and the specific terms of any Benchmark Replacement Conforming Changes, determined under Condition 7(e)(iv) above will be notified promptly by the Issuer to the Fiscal Agent, the Calculation Agent, the Paying Agents and, in accordance with Condition 18 (*Notices*), the Noteholders. Such notice shall be irrevocable and shall specify the effective date on which such changes take effect.

No later than notifying the Fiscal Agent of the same, the Issuer shall deliver to the Fiscal Agent a certificate signed by two authorised signatories of the Issuer:

(A) confirming (x) that a Benchmark Transition Event has occurred, (y) the relevant Benchmark Replacement and, (z) where applicable, any Benchmark Replacement Adjustment and/or the specific terms of any relevant Benchmark Replacement Conforming Changes, in each case as determined in accordance with the provisions of this Condition 7(e); and

(B) certifying that the relevant Benchmark Replacement Conforming Changes are necessary to ensure the proper operation of such Benchmark Replacement and/or Benchmark Replacement Adjustment.

(vi) If the Rate of Interest cannot be determined in accordance with the foregoing provisions of this Condition 7(e), the Rate of Interest shall be (A) that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period) or (B) if there is no such preceding Interest Determination Date, the initial Rate of Interest which would have been applicable to the Notes for the first Interest Period had the Notes been in issue for a period equal in duration to the scheduled first Interest Period but ending on (and excluding) the Interest Commencement Date (but applying the Margin applicable to the first Interest Period).

(f) *Screen Rate Determination - Floating Rate Notes referencing €STR*

(i) This Condition 7(f) is only applicable to the Notes if Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, and the "Reference Rate" is specified in the relevant Pricing Supplement as being "€STR".

(ii) The Rate of Interest for each Interest Period will, subject as provided below, be Compounded Daily €STR plus or minus (as specified in the relevant Pricing Supplement) the Margin, all as determined by the Calculation Agent on each Interest Determination Date.

(iii) For the purposes of this Condition 7(f):

"**Compounded Daily €STR** XE "Compounded Daily €STR" " means, with respect to any Interest Period, the rate of return of a daily compound interest investment (with the daily euro short-term rate as reference rate for the calculation of interest) as calculated by the Calculation Agent as at the relevant Interest Determination Date in accordance with the following formula (and the resulting percentage will be rounded if necessary to the nearest fifth decimal place, with 0.000005 being rounded upwards):

i=1do1+€STRi × niD-1×Dd

where:

"**d**" means the number of calendar days in:

(i) where "Lag" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Interest Period; or

(ii) where "Observation Shift" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Observation Period;

"**D**" means the number specified as such in the relevant Pricing Supplement (or, if no such number is specified, 360);

"**d$_o$**" means the number of TARGET Settlement Days in:

(i) where "Lag" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Interest Period; or

(ii) where "Observation Shift" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Observation Period;

the "**€STR reference rate** XE "€STR reference rate" ", in respect of any TARGET Settlement Day, is a reference rate equal to the daily euro short-term rate ("**€STR** XE "€STR" ") for such TARGET Settlement Day as provided by the European Central Bank as the administrator of €STR (or any successor administrator of such rate) on the website of the European Central Bank (or, if no longer published on its website, as otherwise published by it or provided by it to authorised distributors and as then published on the Relevant Screen Page or, if the Relevant Screen Page is unavailable, as otherwise published by such authorised distributors) on the TARGET Settlement Day immediately following such TARGET Settlement Day (in each case, at the time specified by, or determined in accordance with, the applicable methodology, policies or guidelines, of the European Central Bank or the successor administrator of such rate);

"**€STR$_i$** XE "€STR$_i$" " means the €STR reference rate for:

(i) where "Lag" is specified as the Observation Method in the relevant Pricing Supplement, the TARGET Settlement Day falling "p" TARGET Settlement Days prior to the relevant TARGET Settlement Day "i"; or

(ii) where "Observation Shift" is specified as the Observation Method in the relevant Pricing Supplement, the relevant TARGET Settlement Day "i".

"**i**" is a series of whole numbers from one to "d_o", each representing the relevant TARGET Settlement Day in chronological order from, and including, the first TARGET Settlement Day in:

(i) where "Lag" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Interest Period; or

(ii) where "Observation Shift" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Observation Period;

to, and including, the last TARGET Settlement Day in such period;

"**n$_i$**" for any TARGET Settlement Day "i" in the relevant Interest Period or Observation Period (as applicable), means the number of calendar days from (and including) such TARGET Settlement Day "i" up to (but excluding) the following TARGET Settlement Day;

"**Observation Period** XE "Observation Period" " means, in respect of any Interest Period, the period from (and including) the date falling "p" TARGET Settlement Days prior to the first day of the relevant Interest Period (and the first Interest Period shall begin on and include the Interest Commencement Date) to (but excluding) the date falling "p" TARGET Settlement Days prior to (A) (in the case of an Interest Period) the Interest Payment Date for such Interest Period or (B) such earlier date, if any, on which the Notes become due and payable; and

"**p**" for any latest Interest Period or Observation Period (as applicable), means the number of TARGET Settlement Days specified as the "Lag Period" or the "Observation Shift Period" (as applicable) in the relevant Pricing Supplement or, if no such period is specified, five TARGET Settlement Days.

(iv) Subject to Condition 7(h) (*Benchmark Discontinuation*), if, where any Rate of Interest is to be calculated pursuant to Condition 7(f)(ii) above, in respect of any TARGET Settlement Day in respect of which an applicable €STR reference rate is required to be determined, such €STR reference rate is not made available on the Relevant Screen Page and has not otherwise been published by the relevant authorised distributors, then the €STR reference rate in respect of such TARGET Settlement Day shall be the €STR reference rate for the first preceding TARGET Settlement Day in respect of which €STR reference rate was published by the European Central Bank on its website, as determined by the Calculation Agent.

(v) Subject to Condition 7(h) (*Benchmark Discontinuation*), if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this Condition 7(f)(ii), the Rate of Interest shall be (A) that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period) or (B) if there is no such preceding Interest Determination Date, the initial Rate of Interest which would have been applicable to the Notes for the first Interest Period had the Notes been in issue for a period equal in duration to the scheduled first Interest Period but ending on (and excluding) the Interest Commencement Date (but applying the Margin applicable to the first Interest Period).

(g) *Screen Rate Determination - SONIA Compounded Index and SOFR Compounded Index*

(i) This Condition 7(g) is only applicable to Notes if Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, and "Index Determination" is specified in the relevant Pricing Supplement as being applicable.

(ii) The Rate of Interest for each Interest Period will be the compounded daily reference rate for the relevant Interest Period, calculated in accordance with the following formula:

(Compounded Index EndCompounded Index Start-1) X Numeratord

and rounded to the Relevant Decimal Place, plus or minus the Margin (if any), all as determined and calculated by the Calculation Agent, where:

"**Compounded Index**" shall mean either the SONIA Compounded Index or the SOFR Compounded Index, as specified in the relevant Pricing Supplement;

"**d**" is the number of calendar days from (and including) the day on which the relevant Compounded Index Start is determined to (but excluding) the day on which the relevant Compounded Index End is determined;

"**End**" means the relevant Compounded Index value on the day falling the Relevant Number of Index Days prior to the Interest Payment Date for such Interest Period, or such other date on which the relevant payment of interest falls due (but which by its definition or the operation of the relevant provisions is excluded from such Interest Period);

"**Index Days**" means, in the case of the SONIA Compounded Index, London Banking Days, and, in the case of the SOFR Compounded Index, U.S. Government Securities Business Days;

"**London Banking Day**" has the meaning given in Condition 7(d);

"**Numerator**" means, in the case of the SONIA Compounded Index, 365 and, in the case of the SOFR Compounded Index, 360;

"**Relevant Decimal Place**" shall, unless otherwise specified in the Pricing Supplement, be the fifth decimal place, rounded up or down, if necessary (with 0.000005 being rounded upwards); and

"**Relevant Number**" is as specified in the applicable Pricing Supplement, but, unless otherwise specified shall be five.

"**SONIA Compounded Index**" means the Compounded Daily SONIA rate as published at 10:00 (London time) by the Bank of England (or a successor administrator of SONIA) on the Bank of England's Interactive Statistical Database, or any successor source;

"**SOFR Compounded Index**" means the Compounded Daily SOFR rate as published at 15:00 (New York time) by Federal Reserve Bank of New York (or a successor administrator of SOFR) on the website of the Federal Reserve Bank of New York, or any successor source;

"**Start**" means the relevant Compounded Index value on the day falling the Relevant Number of Index Days prior to the first day of the relevant Interest Period; and

"**U.S. Government Securities Business Day**" has the meaning given in Condition 7(e).

Provided that a Benchmark Event or Benchmark Transition Event has not occurred in respect of the relevant Compounded Index, if, with respect to any Interest Period, the relevant rate is not published for the relevant Compounded Index either on the relevant Start or End date, then the Calculation Agent shall calculate the rate of interest for that Interest Period as if Index Determination was not specified in the applicable Pricing Supplement and as if Compounded SONIA or Compounded Daily SOFR (as defined in Condition 7(d) or Condition 7(e), as applicable) had been specified instead in the Pricing Supplement, and in each case "Observation Shift" had been specified as the Observation Method in the relevant Pricing Supplement, and where the Observation Shift Period for the purposes of that definition in Condition 7(d) or Condition 7(e) (as applicable) shall be deemed to be the same as the Relevant Number specified in the Pricing Supplement and where, in the case of Compounded Daily SONIA, the Relevant Screen Page will be determined by the Issuer.

For the avoidance of doubt, if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred in respect of the SOFR Compounded Index or if a Benchmark Event has occurred in respect of the SONIA Compounded Index, the provisions of Condition 7(d)(iv), 7(e)(iv) and 7(h) (*Benchmark Discontinuation*) (as applicable) shall apply.

(h) *Benchmark Discontinuation:*

(i) *Independent Adviser*

Other than in the case of a U.S. dollar-denominated floating rate Note for which the Reference Rate is specified in the relevant Final Terms as being "SOFR", if a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, then the Issuer shall use its reasonable endeavours to appoint (at the expense of the Issuer) and consult with an Independent Adviser, as soon as reasonably practicable, with a view to the Issuer (acting in good faith and in a commercially reasonable manner) determining a Successor Rate, failing which an Alternative Rate (in accordance with Condition 7(h)(ii)) and, in either case, an Adjustment Spread if any (in accordance with Condition 7(h)(iii)) and any Benchmark Amendments (in accordance with Condition 7(h)(iv)).

An Independent Adviser appointed pursuant to this Condition 7(h) shall act in good faith as an expert and (in the absence of bad faith or fraud) shall have no liability whatsoever to the Issuer, the Paying Agents, the Calculation Agent, the Noteholders or the Couponholders for any determination made by it or for any advice given to the Issuer in connection with any determination made by the Issuer, pursuant to this Condition 7(h).

If (a) the Issuer is unable to appoint an Independent Adviser or (b) the Issuer, following consultation with the Independent Adviser, fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 7(h)(i) prior to the relevant Interest Determination Date, the Reference Rate applicable to the immediate following Interest Period shall be the Reference Rate applicable as at the last preceding Interest Determination Date. If there has not been a first Interest Payment Date, the Reference Rate shall be the Reference Rate applicable to the first Floating Rate Interest Period. For the avoidance of doubt, any adjustment pursuant to this final paragraph of Condition 7(h)(i) shall apply to the immediately following Interest Period only. Any subsequent Interest Period may be subject to the subsequent operation of this Condition 7(h)(i).

(ii) *Successor Rate or Alternative Rate*

If the Issuer, following consultation with the Independent Adviser and acting in good faith, determines that:

(A) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 7(h)(iii)) subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 7(h)); or

(B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 7(h)(iii)) subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 7(h)).

(iii) *Adjustment Spread*

If the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines (x) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (y) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

(iv) *Benchmark Amendments*

If any Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 7(h) and the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines (i) that amendments to these Conditions are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 7(h)(v), without any requirement for the consent or approval of Noteholders, vary these Conditions to give effect to such Benchmark Amendments with effect from the date specified in such notice.

In connection with any such variation in accordance with this Condition 7(h)(iv), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(v) *Notices, etc.*

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 7(h) will be notified promptly by the Issuer to the Calculation Agent, the Paying Agents and, in accordance with Condition 18, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

(vi) *Survival of Original Reference Rate*

Without prejudice to the obligations of the Issuer under Conditions 7(h)(i), (ii), (iii) and (iv), the Original Reference Rate and the fallback provisions provided for in Conditions 7(c)(iv) and (v) will continue to apply unless and until the Calculation Agent has been notified of the Successor Rate or the Alternative Rate (as the case may be), and any Adjustment Spread (if applicable) and Benchmark Amendments, in accordance with Condition 7(h)(v).

(i) *Maximum or Minimum Rate of Interest*: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified. Unless otherwise stated in the relevant Pricing Supplement, the Minimum Rate of Interest shall be deemed to be zero.

(j) *Calculation of Interest Amount*: The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant note divided by the Calculation amount. For this purpose, a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(k) *Publication*: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(l) *Determination of Rate of Interest following acceleration:* If (i) the Notes become due and payable in accordance with Condition 12 (*Events of Default*) and (ii) the Rate of Interest for the Interest Period during which the Notes become due and payable is to be determined by reference to any of Conditions 7(d) (*Screen Rate Determination - Floating Rate Notes referencing SONIA*), 7(e) (*Screen Rate Determination - Floating Rate Notes referencing SOFR*), 7(f) (*Screen Rate Determination - Floating Rate Notes referencing €STR*) and 7(g) (*Screen Rate Determination - SONIA Compounded Index and SOFR Compounded Index*), then the final Interest Determination Date shall be the date on which the Notes become so due and payable, and such Rate of Interest shall continue to apply to the Notes for so long as interest continues to accrue thereon as provided in the Conditions.

(m) *Notifications etc.*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8. Zero Coupon Note Provisions

(a) *Application*: This Condition 8 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Late payment on Zero Coupon Notes*: If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. Redemption and Purchase

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 10 (*Payments*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (if the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as not being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

(A) (x) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 11 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of The Netherlands or the United States of America or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and (y) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(B) the Issuer shall determine that any payment made outside the United States by the Issuer or any Paying Agents in respect of any Note or Coupon appertaining thereto would, under any present or future laws or regulations of the United States affecting taxation or otherwise, be subject to any certification, information or other reporting requirement of U.S. law or regulation with regard to the nationality, residence or identity of a beneficial owner (other than reporting requirements pursuant to Sections 1471 to 1474 of the Internal Revenue Code, pursuant to any intergovernmental agreement or implementing legislation adopted by another jurisdiction in connection with these provisions of the Internal Revenue Code, or pursuant to any agreement with the U.S. Internal Revenue Service), who is not a U.S. Person, of such instrument or Coupon (other than a requirement that: (x) would not be applicable to a payment made (1) directly to the beneficial owner or (2) to a custodian, nominee or other agent of the beneficial owner; or (y) could be satisfied by the holder, custodian, nominee or other agent certifying that the beneficial owner is not a U.S. Person, provided, however, that in each case referred to in (x)(2) or (y) payment by any such custodian, nominee or agent to the beneficial owner is not otherwise subject to any requirement referred to in this sentence; or (z) would not be applicable to a payment made by at least one paying agent),

provided, however, that no such notice of redemption shall be given earlier than:

(1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or

(2) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent (A) a certificate signed by two members of the Board of Management of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (B) (in the case of redemption under Condition 9(b)(A)) an opinion of independent legal advisers of recognized standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 9(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 9(b).

(c) *Redemption at the option of the Issuer*: If the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

(d) *Partial redemption*: If the Notes are to be redeemed in part only on any date in accordance with Condition 9(c) (*Redemption at the option of the Issuer*), the Notes to be redeemed shall be selected by the drawing of lots in such place and in such manner as may be fair and reasonable in the circumstances, taking into account prevailing market practices, subject to compliance with applicable law and the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 9(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(e) *Redemption at the option of Noteholders*: If the Put Option is specified in the relevant Pricing Supplement as being applicable, the Issuer shall, at the option of the holder of any Note, redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 9(e), the holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 9(e), may be withdrawn; *provided, however, that* if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 9(e), the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.

(f) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (e) above.

(g) *Early redemption of Zero Coupon Notes*: Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 9(g) or, if none is so specified, a Day Count Fraction of 30E/360.

(h) *Purchase*: The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith.

(i) *Cancellation*: All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

10. **Payments**

(a) *Principal*: Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency. No payments on Notes will be made by mail to an address in the United States of America or by transfer to an account maintained in the United States of America.

(b) *Interest*: Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

(c) *Payments in The City of New York*: Payments of principal or interest in U.S. dollars may be made at the Specified Office of a Paying Agent in The City of New York if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in U.S. dollars when due, (ii) payment of the full amount of such interest in U.S. dollars at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

(d) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 11 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Deductions for unmatured Coupons*: If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable, and a Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; provided, however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; *provided, however, that* where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; *provided, however, that*, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

(f) *Unmatured Coupons void*: If the relevant Pricing Supplement specifies that this Condition 10(f) is applicable or that the Floating Rate Note Provisions are applicable, on the due date for final redemption of any Note or early redemption of such Note pursuant to Condition 9(b) (*Redemption for tax reasons*), Condition 9(e) (*Redemption at the option of Noteholders*), Condition 9(c) (*Redemption at the option of the Issuer*) or Condition 12 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(g) *Payments on Business Days*: If the due date for payment of any amount in respect of any Note or Coupon is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(h) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States (or in The City of New York if permitted by paragraph (c) above).

(i) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(j) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent or at the office of the Paying Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 13 (*Prescription*)). Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

11. Taxation

(a) *Gross up:* All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of The Netherlands or the United States of America or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law or agreement of the Issuer. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

(i) by or on behalf of a holder which is liable for such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or

(ii) more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days; or

(iii) where such withholding or deduction is imposed pursuant to the Dutch Withholding Tax Act 2021 (*Wet bronbelasting 2021*); or

(iv) where such withholding or deduction would not have been imposed but for the holder's past or present status as a personal holding company, foreign personal holding company or passive foreign investment company with respect to the United States or a corporation that accumulates earnings to avoid U.S. federal income tax; or

(v) where such withholding or deduction would not have been imposed but for the holder's past or present status as a "10 per cent. shareholder" of the obligor of the Note as defined in Section 871(h)(3) of the U.S. Internal Revenue Code or any successor provisions, a controlled foreign corporation related to the obligor of the Note or a bank that has invested in the Note as an extension of credit in the ordinary course of its trade or business; or

(vi) where such withholding or deduction is required by the rules under Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (the "**Code**") (or any amended or successor provisions), pursuant to any inter-governmental agreement, or implementing legislation adopted by another jurisdiction in connection with these provisions of the Code, or pursuant to any agreement with the U.S. Internal Revenue Service ("**FATCA withholding**") as a result of a holder, beneficial owner or an intermediary that is not an agent of the Issuer not being entitled to receive payments free of FATCA withholding.

(b) *Taxing jurisdiction:* If the Issuer becomes subject at any time to any taxing jurisdiction other than The Netherlands references in these Conditions to The Netherlands shall be construed as references to The Netherlands and/or such other jurisdiction.

12. Events of Default

If any of the following events occurs and is continuing:

(a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within 14 days of the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer by any Noteholder has been delivered to the Issuer or to the Specified Office of the Fiscal Agent; or

(c) *Cross-default of Issuer*: the Issuer defaults under any Indebtedness, whether such Indebtedness now exists or shall hereafter be created, which default shall have resulted in Indebtedness in an aggregate principal amount exceeding €10,000,000 (or its equivalent in any other currency or currencies) (except that such euro amount shall not apply with respect to a default with respect to Notes of any other Series), becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, without such acceleration having been rescinded or annulled or such Indebtedness having been discharged within a period of 30 days after there shall have been given, by registered or certified mail, to the Issuer by any Noteholder, a written notice specifying such default and requiring the Issuer to cause such acceleration to be rescinded or annulled or such Indebtedness to be discharged and stating that such notice is a "Notice of Default" under this Condition 12(c); or

(d) *Security enforced*: a secured party or encumbrancer takes possession, or a receiver, manager or other similar officer is appointed, of the whole or a substantial part of the undertaking, assets and revenues of the Issuer or any of its Subsidiaries; or

(e) *Insolvency etc.*: (i) the Issuer becomes insolvent or admits in writing that it is unable to pay its debts as they fall due, (ii) an administrator (including a *bewindvoerder*) or liquidator (including a *curator*) of the Issuer or the whole or a substantial part of the undertaking, assets and revenues of the Issuer is appointed (or application for any such appointment is made including an application for the Issuer to be declared bankrupt (*failliet*) or to be granted a moratorium of payments (*surseance van betaling*), unless such application is contested by the Issuer and/or discharged or stayed within 90 days or is cancelled or withdrawn within 90 days after the making thereof), (iii) the Issuer takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition (*akkoord*) with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness; or

(f) *Winding up etc.*: an order is made, or an effective resolution is passed for the winding up, liquidation or dissolution (*ontbinding en vereffening*) of the Issuer or any of its Subsidiaries (otherwise than, in the case of a Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

(g) *Attachment etc.*: an executory attachment (*executorial beslag*) or interlocutory attachment (*conservatoir beslag*) is made on all or a substantial part of the assets of the Issuer, or a similar measure under foreign law is made, unless such application is contested by the Issuer and/or discharged or stayed within 90 days, or is cancelled or withdrawn within 90 days after the making thereof; or

(h) *Enforcement proceedings*: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against the whole or a substantial part of the property, assets or revenues of the Issuer or any of its Subsidiaries and is not discharged or stayed within 90 days,

(i) *Keep Well Agreement etc. not in force*: the Keep Well Agreement is not (or is claimed by either party thereto not to be) in full force and effect or is modified, amended or terminated in contravention of the provisions thereof, or the Issuer waives, or fails to take all reasonable steps to exercise, any of its rights under the Keep Well Agreement or PACCAR or the Issuer fails to perform or observe any obligation on its part under the Keep Well Agreement so as to affect materially and adversely the interests of any Noteholder or Couponholder;

then any outstanding Notes of a particular Series may by written notice, addressed by any Noteholder, delivered to the Issuer or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon they shall become immediately due and payable at their Early Termination Amount together with accrued interest (if any) without further action or formality. Upon payment of the Early Termination Amount, all obligations of the Issuer in respect of payment of the principal amount of the Notes of such Series shall terminate.

13. Prescription

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

14. Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements (if any), upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

15. Agents

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent or Calculation Agent and additional or successor paying agents; *provided, however, that*:

(a) the Issuer shall at all times maintain a Fiscal Agent; and

(b) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent; and

(c) if and for so long as the Notes are admitted to listing and trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Issuer shall maintain a Paying Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Notes denominated in U.S. dollars in the circumstances described in Condition 10(c).

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

16. **Meetings of Noteholders; Modification and Waiver**

(a) *Meetings of Noteholders*: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by them upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in aggregate principal amount of the outstanding Notes will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

The consent or approval of the Noteholders will not be required for any Benchmark Amendments made pursuant to Condition 7(h) (*Benchmark Discontinuation*).

(b) *Modification*: The Notes and these Conditions may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error, or it is, in the opinion of the Issuer, not materially prejudicial to the interests of the Noteholders.

17. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

18. **Notices**

Notices to the Holders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the Financial Times) and, if the Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders.

19. **Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer, shall give rise to a separate and independent cause of action and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Note or Coupon or any other judgment or order.

20. **Rounding**

For the purposes of any calculations referred to in these Conditions, (unless otherwise specified in these Conditions, or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, (b) U.S. dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

21. **Governing Law and Jurisdiction**

(a) *Governing law*: The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.

(b) *English courts*: The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Notes (including a dispute relating to the existence, validity or termination of the Notes or any non-contractual obligation arising out of or in connection with the Notes) or the consequences of their nullity.

(c) *Appropriate forum*: The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(d) *Rights of the Noteholders to take proceedings outside England*: Condition 21(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 21 (*Governing law and jurisdiction*) prevents any Noteholder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) *Process agent*: The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to PACCAR Financial PLC at Croston Road, Leyland, Preston, Lancashire PR5 3LZ, United Kingdom or, if different, its registered office for the time being. If such Person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed and delivered to the Issuer or to the Specified Office of the Fiscal Agent appoint a further Person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a Person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere to the extent permitted under applicable law.

EXHIBIT 31(a)

CERTIFICATION

I, R. Preston Feight, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PACCAR Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date November 2, 2023

/s/ R. Preston Feight
R. Preston Feight
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31(b)

CERTIFICATION

I, Harrie C.A.M. Schippers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PACCAR Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date November 2, 2023

/s/ Harrie C.A.M. Schippers
Harrie C.A.M. Schippers
President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of PACCAR Inc (the “Company”) on Form 10-Q for the quarter ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned certify, pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. section 1350), that to the best of our knowledge and belief:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date November 2, 2023

By /s/ R. Preston Feight
R. Preston Feight
Chief Executive Officer
PACCAR Inc
(Principal Executive Officer)

By /s/ Harrie C.A.M. Schippers
Harrie C.A.M. Schippers
President and Chief Financial Officer
PACCAR Inc
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.