Daimler Canada Finance Inc.

Annual Report 2016

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Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements of Daimler Canada Finance Inc. (the Company) provide a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the Company's Management Report provides a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Park Ridge, NJ (USA), April 28, 2017

Gianni P. Gatto

Ruben Simmons
President & CEO

Gianni P. Gatto
Chief Accounting Officer

Management Report

General

Daimler Canada Finance Inc. ("DCFI" or the "Company") is a wholly-owned subsidiary of Daimler AG ("DAG" or "Daimler").

DCFI accesses Canadian and foreign capital markets to raise funds, which it lends to DAG subsidiaries in Canada through a consolidated funding and cash management system. As such, it has relationships with other subsidiaries of DAG. DAG has issued full and unconditional guarantees for DCFI's obligations incurred under its outstanding notes and bonds and commercial paper programs.

The nature of the Daimler operations in Canada includes the distribution of passenger cars purchased from DAG under the brand names Mercedes-Benz and smart, and the sale of trucks and other commercial vehicles under the brand names Freightliner and Thomas Built Buses. Daimler also has financial services operations that principally provide automotive financing to its dealers and their customers, including retail and lease financing for cars and trucks, dealer inventory and other financing needs.

This annual report contains forward looking statements that reflect our current views about future events. Words such as "anticipate," "assume," "believe," "estimate," "expect," "intend," "may," "plan," "project," "should" and similar expressions are being used to identify forward looking statements. These statements are subject to many risks and uncertainties, including:

- an adverse development of global economic conditions, in particular a decline of demand and investment activity in Canada;
- a deterioration of our funding possibilities on the credit and financial markets, which could result in an increase in borrowing costs or limit our funding flexibility;
- changes in currency exchange rates and interest rates;
- changes in laws, regulations and government policies that may affect the Company or any of its sister companies; and
- the business outlook of the Company's sister companies in Canada, which may affect the funding requirements of such sister companies in the automotive and financial services businesses.

The following discussion should be read in conjunction with the Company's financial statements as of and for the years ended December 31, 2016 and 2015, which were prepared using International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Note 3 to the financial statements provides a summary of the Company's significant accounting policies.

Earnings

Interest income

Interest income was $123,417 in 2016 compared to $119,264 in 2015. The 3.5% increase is mainly caused by higher average related party receivables and higher average cash balances.

Interest expense

Interest expense was $111,537 in 2016 compared to $105,161 in 2015. The 6.1% increase is mainly caused by higher average notes and bonds payable balances and intercompany payable balances.

Administrative and other expense

Administrative and other expense increased to $3,906 in 2016 from $3,786 in 2015 mainly due to increases in professional fees and labor related costs.

(all amounts in thousands of Canadian dollars)

Other financial expense, net

Other financial expense, net was $711 in 2016, compared to $628 in 2015 due to increased bank fees.

Profit before income taxes

Profit before income taxes decreased to $7,263 in 2016 compared to $9,689 in 2015, mainly because of an interest rebate $5,940 to Mercedes-Benz Financial Services, Canada to match external funding cost.

Income tax expense

The Company recorded an income tax expense of $1,076 in 2016 compared with $358 in 2015. The change is primarily due to an one-time tax benefit related to an audit settlement with the Canada Revenue Agency recorded in 2015.

Other comprehensive income

Other comprehensive income was comprised of unrealized gains and losses from cash flow hedges. The Company recorded net gains after taxes of $5,110 in 2016 compared to net losses after taxes of $251 in 2015.

Financial position

Total assets were $7,453,046 at December 31, 2016 compared to $6,831,241 at December 31, 2015, an increase of 9.1%. This change is mainly due to increases in total marketable debt securities and cash. Total liabilities also increased to $7,080,075 at December 31, 2016 from $6,469,567 at December 31, 2015 primarily due to higher notes and bonds payable. Total equity increased to $372,971 at December 31, 2016 from $361,674 at December 31, 2015 because of net income of $6,187 in 2016 as well as $5,110 other comprehensive income from cash flow hedges.

Liquidity and capital resources

In the ordinary course of business, the Company issues notes and bonds and commercial paper in Canada and Europe. The Company also enters, as necessary, into intercompany loans with other DAG subsidiaries to optimize funding from a global Daimler perspective.

The funds raised in 2016 and prior years were used to support the lease and sales financing business and the capital expenditure requirements of the industrial business of the Daimler subsidiaries in Canada. Lease and sales financing activities are typically financed with a high proportion of debt.

Cash flows were the following in 2016 and in 2015:

	2016	2015
Net cash provided by/(used for) operating activities	347,842	(1,160,196)
Net cash used for investing activities	(717,492)	-
Net cash provided by financing activities	684,929	1,318,169

Net cash inflows from operating activities were $347,842 in 2016 compared to net cash outflows of $1,160,196 in 2015 mainly due to a net decrease of operating receivables and payables from related parties.

Investing net cash outflows were $717,492 in 2016 compared to zero in 2015 due to increase in marketable debt securities.

Net cash inflows from financing activities were $684,929 for 2016 compared to cash inflows of $1,318,169 for 2015. This change is comprised of new issuances of notes and bonds and commercial paper offset by repayment of maturing notes and bonds and commercial paper.

Risk report

Many factors could directly and indirectly, through the close affiliation with DCFI's sister companies, affect the Company's business, financial condition, cash flows and results of operations. The principal risks are described below.

Economic risks

The global economy remains vulnerable due to old problems such as deteriorating demographics, underinvestment and new ones such as Brexit and protectionist policies from the new U.S. administration. All these factors could have significant adverse effects on the Daimler businesses in Canada and, as a result, on the future financial position of the Company.

Tightening of credit as a result of turmoil in the financial industry and the resulting downturn of the Canadian and worldwide economies could result in a significant decline in consumer confidence and resulting declines in investment activity and consumer demand, including demand for the passenger cars, trucks and buses sold by the Daimler businesses in Canada and throughout the world.

Industry risks

Overcapacity and intense price competition in the automotive industry could force the Daimler companies in Canada, which are financed by DCFI, to reduce distribution capacity or increase sales incentives, each of which would be costly and would indirectly affect the financial position of the Company.

In addition, the financial services that Daimler offers in connection with the sale of vehicles involve several risks. These include the potential inability to recover the investments in leased vehicles or to collect the sales financing receivables if the resale prices of the vehicles securing these receivables fall short of the carrying value, which may lead to additional funding requirements through DCFI.

Financial risks

The Daimler business in Canada, and in particular the operations of the Company, are exposed to a variety of financial risks, including the effects of changes in foreign currency exchange rates and interest rates. The Company holds a variety of interest rate sensitive assets and liabilities to manage the liquidity and cash needs of the Daimler operations. Changes in foreign currency exchange rates and interest rates may have substantial adverse effects on the Company's operating results and cash flows. Adverse effects may arise from downgrades of the long-term debt ratings of the Company's parent company, DAG, and the ability of the Company to issue debt in the Canadian and European markets. Lower demand for the Company's debt instruments could increase the borrowing costs or otherwise limit DCFI's ability to fund the Daimler operations in Canada.

Note 15 to the Company's financial statements describes the risk management strategies employed by the Company to address such risks.

If any of these risks and uncertainties materialize, or if the assumptions underlying any of our forward-looking statements prove incorrect, then our actual results may be materially different from those we express or imply by such statements. We do not intend or assume any obligation to update these forward-looking statements. Any forward looking statement speaks only as of the date on which it is made.

Corporate Governance

Corporate bodies

As of December 31, 2016, the Company had eight officers and a board of directors which comprised three members. With this segregation, the officers are responsible for managing the day to day operations of the Company while the board of directors advises and monitors the officers.

Compliance

As part of the Daimler organization, the Company has applied all compliance principles the Daimler AG Board of Management has set including an Integrity Code. This Integrity Code is a set of guidelines for behavior defining a binding framework for the actions of all employees worldwide. Among other things, the guidelines define correct behavior in international business and in any cases of conflicts of interest, questions of equal treatment, proscription of corruption, the role of internal control systems and the duty to comply with applicable law as well as other internal and external regulations.

Risk management and internal control

The risk management system is one component of the overall planning, controlling and reporting process. Its goal is to enable the Company's management to recognize significant risks at an early stage and to initiate appropriate countermeasures in a timely manner (see note 15 to the accompanying financial statements).

The officers of the Company are responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS as issued by the IASB and includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Accounting principles

The financial statements of the Company are prepared in accordance with IFRS as issued by the IASB.

Outlook

Management expects the Company's operational results to be stable in 2017. This expectation is based on the assumption of a steady economic development.

KPMG LLP
Suite 1900
150 West Jefferson
Detroit, MI 48226

Independent Auditors' Report

The Board of Directors
Daimler Canada Finance Inc.:

We have audited the accompanying financial statements of Daimler Canada Finance Inc., which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Daimler Canada Finance Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP

Detroit, Michigan
April 28, 2017

(all amounts in thousands of Canadian dollars)

Statement of Comprehensive Income

		Year ended December 31,	
	Note	**2016**	**2015**
Interest income			
Interest income – related parties		119,463	116,780
Interest income – third parties		3,954	2,484
Total interest income		**123,417**	**119,264**
Interest expense			
Interest expense – third parties		(99,714)	(94,789)
Interest expense – related parties		(11,823)	(10,372)
Total interest expense		**(111,537)**	**(105,161)**
Net interest income		**11,880**	**14,103**
Administrative and other expense	16	(3,906)	(3,786)
Other financial income (expense), net	4	(711)	(628)
Profit before income taxes		**7,263**	**9,689**
Income tax expense	5	(1,076)	(358)
Net profit		**6,187**	**9,331**
Other comprehensive income			
Items that will likely be reclassified into profit/loss		**5,110**	**(251)**
Unrealized gains (losses) from cash flow hedges, net of taxes of $1,871 in 2016 and ($92) in 2015	14	5,110	(251)
Other comprehensive income/(loss), net of taxes		**5,110**	**(251)**
Total comprehensive income		**11,297**	**9,080**

The accompanying notes on pages 13 to 31 are an integral part of the financial statements.

(all amounts in thousands of Canadian dollars)

Statement of Financial Position

		Year ended December 31,	
	Note	2016	2015
Assets			
Loans and receivables from related parties	6	2,912,000	3,219,000
Other financial assets	7	8,704	102,228
Deferred tax assets	5	-	1,548
Total non-current assets		**2,920,704**	**3,322,776**
Marketable debt securities	8	717,492	-
Loans and receivables from related parties	6	3,190,593	3,163,746
Cash and cash equivalents	3	603,666	288,387
Other financial assets	7	18,332	48,080
Other assets		160	158
Tax receivables		2,099	8,094
Total current assets		**4,532,342**	**3,508,465**
Total assets		**7,453,046**	**6,831,241**
Equity and liabilities			
Share capital	9	-	-
Capital reserves		394,137	394,137
Accumulated deficit		(25,949)	(32,136)
Cash flow hedge reserve		4,783	(327)
Total equity	9	**372,971**	**361,674**
Notes and bonds payable	10	4,208,676	3,798,016
Other financial liabilities	13	73,115	5,468
Deferred tax liabilities	5	1,751	-
Total non-current liabilities		**4,283,542**	**3,803,484**
Provisions and other liabilities		147	102
Payables to related parties	12	293,910	230,197
Notes and bonds payable	10	1,920,670	1,857,436
Commercial paper	11	468,151	555,176
Other financial liabilities	13	113,655	23,172
Total current liabilities		**2,796,533**	**2,666,083**
Total liabilities		**7,080,075**	**6,469,567**
Total equity and liabilities		**7,453,046**	**6,831,241**

The accompanying notes on pages 13 to 31 are an integral part of the financial statements.

(all amounts in thousands of Canadian dollars)

Statement of Changes in Equity

	Share capital	Capital reserves	Retained deficit	Cash flow hedges reserve	Total equity
Balance at January 1, 2015	**-**	**326,377**	**(41,467)**	**(76)**	**284,834**
Net profit (loss)	-	-	9,331	-	9,331
Other comprehensive income before taxes	-	-	-	(343)	(343)
Deferred taxes on other comprehensive income	-	-	-	92	92
Total comprehensive income (loss)	**-**	**-**	**9,331**	**(251)**	**9,080**
Capital contribution		67,760	-	-	67,760
Balance at December 31, 2015	**-**	**394,137**	**(32,136)**	**(327)**	**361,674**
Balance at January 1, 2016	**-**	**394,137**	**(32,136)**	**(327)**	**361,674**
Net profit (loss)	-		6,187		6,187
Other comprehensive income before taxes	-			6,981	6,981
Deferred taxes on other comprehensive income	-			(1,871)	(1,871)
Total comprehensive income	**-**		**6,187**	**5,110**	**11,297**
Balance at December 31, 2016	**-**	**394,137**	**(25,949)**	**4,783**	**372,971**

The accompanying notes on pages 13 to 31 are an integral part of the financial statements.

(all amounts in thousands of Canadian dollars)

Statement of Cash Flows

		Year ended December 31,	
	Note	2016	2015
Net profit		6,187	9,331
Adjustments for			
FX losses	4	5	126
Non-cash interest expenses		(298,484)	202,040
Deferred tax	5	1,428	197
Changes in			
Tax receivables	5	5,995	(495)
Derivative financial instruments	7, 13	290,380	(193,539)
Other assets, provisions and accrued interest		(1,535)	1,445
Loans and receivables from and payables to related parties	6, 12	343,866	(1,179,301)
Cash provided by/(used for) operating activities		**347,842**	**(1,160,196)**
Acquisition of marketable debt securities		(3,245,224)	-
Proceeds from sales of marketable debt securities		2,527,732	-
Cash used for investing activities		**(717,492)**	**-**
Issuances of notes and bonds payable	10	2,583,023	2,981,524
Issuances of commercial paper[1]	11	133,961	226,941
Repayment of notes and bonds payable	10	(1,810,645)	(1,758,142)
Repayment of commercial paper	11	(221,410)	(199,914)
Capital contribution	9	-	67,760
Cash provided by financing activities		**684,929**	**1,318,169**
Net increase in cash and cash equivalents		**315,279**	**157,973**
Cash and cash equivalents at the beginning of the period	3	**288,387**	**130,414**
Cash and cash equivalents at the end of the period	3	**603,666**	**288,387**
Supplemental information[2][3]:			
Interest paid		(116,845)	(106,921)
Interest received		124,148	117,533
Income taxes paid		(2,409)	(655)
Income tax refund received		8,675	-

[1] Cash flows from commercial paper with initial time to maturity less than 3 months are netted.
[2] All cash flows from interest and taxes are included in cash (used for)/provided by operating activities.
[3] The Company does not have any cash flows from dividends.

The accompanying notes on pages 13 to 31 are an integral part of the financial statements.

Notes to the Financial Statements

1. Reporting entity

Daimler Canada Finance Inc. ("DCFI" or the "Company") is a stock corporation organized under the laws of Quebec, Canada. The Company is a wholly-owned subsidiary of Daimler AG ("DAG"). Its registered office is located at 1 Place Ville Marie – 37th Floor, H3B 3P4, Montreal, Quebec, Canada.

DCFI accesses Canadian and foreign capital markets to raise funds, which it lends to DAG subsidiaries in Canada through a consolidated funding and cash management system. In the event of non-payment by DCFI, DAG irrevocably and unconditionally guarantees the debt holders the payment of the amounts corresponding to the principal of and interest on the respective notes and bonds and commercial paper as they become due. DCFI has one reporting segment.

On April 28, 2017, the Board of Directors of DCFI authorized the financial statements for issuance.

2. Basis of preparation

(a) Applied IFRS

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(b) IFRSs issued but not yet adopted

In July 2014, the IASB published IFRS 9 Financial Instruments, which replaces IAS 39. IFRS 9 includes a uniform model for classification and measurement methods (including impairment) of financial instruments. It also includes regulations for general hedge accounting. IFRS 9 requires additional notes disclosure, resulting from the amendment of IFRS 7 Financial Instruments - Disclosure.

Examination of the effects on the financial statements of applying IFRS 9 is not yet completed. Effects can result in particular from the fact that the new regulations for recognizing impairments also include expected future losses, whereas IAS 39 only requires the recognition of impairments that have already occurred.

DCFI will apply IFRS 9 for the first time for the financial year beginning on January 1, 2018. DCFI currently plans, in compliance with the transitional regulations, not to adjust the prior-year figures and to present the accumulated transitional effects in retained earnings.

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows, which require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. To satisfy the new disclosure requirements, DCFI intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

Other IFRSs issued but not required to be adopted are not expected to have a significant impact on the Company's financial position, financial performance or statement of cash flows.

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value.
- recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged.

(d) Functional and presentation currency

These financial statements are presented in Canadian dollars ("$"), which is the Company's functional currency. The Company reports financial information in thousands of Canadian dollars, except where indicated otherwise.

(e) Presentation in the statement of financial position

Presentation in the statement of financial position differentiates between current and non-current assets and liabilities. Assets and liabilities are classified as current if they mature within one year. Deferred tax assets are presented as a non-current item.

(f) Accounting estimates and assessments

In the financial statements, to a certain degree, estimates, assessments and assumptions have to be made which can affect the amounts and reporting of assets and liabilities in the statements of financial position and the amounts of income and expense reported for the period. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and are applied prospectively.

Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements relate to the recoverability of receivables from related parties and fair value measurements for the Company's financial instruments.

Recoverability of loans and receivables from related parties

At each reporting date, the carrying amounts of loans and receivables are evaluated to determine whether there is objective significant evidence of impairment. Through December 31, 2016, no impairment losses on receivables from related parties have been recognized as management does not believe that there has been objective significant evidence of impairment.

Fair value of financial instruments

The Company measures fair values of its financial instruments using the following hierarchy of methods:

- Quoted market prices in an active market for an identical instrument.
- Valuation techniques based on observable inputs. This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Company determines fair values using valuation techniques. In particular, the Company uses widely recognized valuation models for determining the fair value of common and simpler financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment. Observable prices and model inputs are usually available in the market for listed debt securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

3. Summary of significant accounting policies

(a) Interest income and expense

Interest income and expense are recognized in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, except future credit losses.

The calculation of the effective interest rate includes all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

(b) Foreign currency translation

Transactions in foreign currencies are translated into Canadian dollars at the spot exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into Canadian dollars at the spot exchange rate at that date. The resulting gains and losses from such re-measurement are recognized in the statement of comprehensive income in the line "other financial income (expense), net" and net to $(5) in 2016 compared to $(126) in 2015.

(c) Income taxes

Current income taxes are determined based on the taxable income for the period and Canadian tax rules. In addition, current income taxes presented for the period include adjustments for uncertain tax payments or tax refunds for periods not yet assessed as well as interest expense and penalties on the underpayment of taxes.

In case it is probable that amounts included in the tax return might not be realized (uncertain tax positions), a provision for income taxes is recognized. The amount of such provision is based on the best estimate of the expected tax payment. Tax refund claims from uncertain tax positions are recognized when it is probable that they can be realized. Only in the case of tax loss carryforwards or unused tax credits, no provision for taxes or tax claim is recognized for these uncertain tax positions. Instead, the deferred tax assets for the unused tax loss carryforwards or tax credits are to be adjusted.

Changes in deferred tax assets and liabilities are generally recognized through profit and loss in income tax expense in the Statements of Comprehensive Income, except for changes recognized in other comprehensive income/loss or directly in equity.

Deferred tax assets or liabilities are determined based on temporary differences between the financial reporting basis and the tax basis of assets and liabilities including differences from unused loss carry forwards and unused tax credits. Measurement is based on the tax rates expected to be in effect in the period in which an asset is recognized or a liability is settled. For this purpose, the tax rates and tax rules are used which have been enacted at the reporting date or are soon to be enacted. Deferred tax assets are recognized to the extent that it is probable that taxable profit at the level of the relevant tax authority will be available for the utilization of the deductible temporary differences.

(d) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments in the form of financial assets and financial liabilities are presented separately. Financial instruments are recognized as soon as DCFI becomes a party to the contractual provisions of the financial instrument. In the case of purchases or sales of financial assets through the regular market, DCFI uses the transaction date as the date of initial recognition or derecognition.

Upon initial recognition, financial instruments are measured at fair value. For the purpose of subsequent measurement financial instruments are allocated to one of the categories set forth in IAS 39, Financial Instruments: Recognition and Measurement. Transaction costs directly attributable to acquisition or issuance are considered in determining the carrying amount if the financial instruments are not measured at fair value through profit or loss.

(e) Financial assets

Financial assets are comprised of loans and receivables from related parties, cash and cash equivalents, derivative financial assets and marketable debt securities.

Loans and receivables from related parties

Loans and receivables from related parties are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these loans and receivables are subsequently carried at amortized cost using the effective interest method less any impairment losses. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired. Interest effects on the application of the effective interest method are also recognized in profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as fair value through profit and loss, held-to-maturity, or loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value, with unrealized gains or losses being recognized in other comprehensive income/loss. If objective evidence of an impairment exists or if changes occur in the fair value of a debt instrument resulting from foreign currency fluctuations, these changes are recognized in profit or loss. Upon disposal of financial assets, the gains and losses recognized in accumulated other comprehensive income/loss resulting from measurement at fair value are recognized in profit or loss. If a reliable estimate cannot be made of the fair value of an unquoted equity instrument, this instrument is measured at cost (less any impairment losses). Interest earned on available-for-sale financial assets is recognized as interest income using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and overnight deposits with a remaining term when acquired of up to three months and correspond with the classification in the statement of cash flows. Cash at December 31, 2016 was $603,666 (2015: $288,387) and there were no cash equivalents in 2016 or 2015, respectively.

(f) Financial liabilities

Financial liabilities primarily include notes and bonds payable, commercial paper, derivative financial liabilities and other financial liabilities.

Financial liabilities measured at amortized cost

After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Derivatives (including embedded derivatives separated from the host contract) which are not used as hedging instruments in hedge accounting, are classified as held for trading. Gains or losses on liabilities held for trading are recognized in profit or loss.

(g) Derivative financial instruments and hedge accounting

DCFI uses derivative financial instruments (e.g. forwards and swaps) mainly for the purposes of hedging interest rate and currency risks that arise from its operating and financing activities.

Derivative financial instruments are measured at fair value upon initial recognition and at each subsequent reporting date. The fair value of listed derivatives is derived based on market price. If a market price is not available, fair value is calculated using standard financial valuation models, such as discounted cash flow models including fair value changes induced by counterparty credit risk. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Fair values reflect the credit risk of the instrument and include adjustments (credit value adjustments (CVA) and debit value adjustments (DVA)) to take account of the credit risk of the Company and the counterparty where appropriate. The calculation of the CVA/DVA is considering probabilities of default (PD) on counterparty level, a standardized loss given default (LGD) and transaction exposures, which include market values and add-ons. The PDs are based on historical default data as well as on current market data. The add-ons are determined by multiplying nominal amounts by instrument and tenor specific add-on factors.

Fair values of derivative financial instruments include a net DVA at December 31, 2016 of $1,056 (2015: $0).

If the requirements for hedge accounting set out in IAS 39 are met, DCFI designates and documents the hedge relationship from the date a derivative contract is entered into either as a fair value hedge or a cash flow hedge. In a fair value hedge, the fair value of a recognized asset or liability or an unrecognized firm commitment is hedged. In a cash flow hedge, the variability of cash flows to be received or paid related to a recognized asset or liability or a highly probable forecasted transaction is hedged. The documentation of the hedging relationship includes the objectives and strategy of risk management, the type of hedging relationship, the nature of risk being hedged, the identification of the hedging instrument and the hedged item as well as a description of the method to assess hedge effectiveness. Hedging transactions are expected to be highly effective in achieving offsetting risks from changes in fair value or cash flows and are regularly assessed to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

Changes in the fair value of derivative financial instruments are recognized periodically in either profit or loss or other comprehensive income/loss, depending on whether the derivative is designated as a hedge of changes in fair value or cash flows. For fair value hedges, changes in the fair value of the hedged item and the derivative are recognized currently in profit or loss. For cash flow hedges, fair value changes of the effective portion of the hedging instrument after taxes are recognized in other comprehensive income/loss. Amounts recognized in other comprehensive income/loss are reclassified to profit or loss when the hedged underlying transaction affects the statement of income. The ineffective portions of fair value changes are recognized in profit or loss.

If derivative financial instruments do not or no longer qualify for hedge accounting because the qualifying criteria for hedge accounting are not, or are no longer met, the derivative financial instruments are classified as held for trading and are measured at fair value through profit or loss.

(h) Transactions with related parties

DCFI is wholly owned by DAG. Transactions with related parties in the normal course of business are recorded at the agreed upon exchange amount. Financial receivables and payables with related parties are entered into at prevailing market terms at the time of the transaction.

(all amounts in thousands of Canadian dollars)

4. Other financial expense, net

Other financial expense, net is comprised of the following:

	2016	2015
Result of foreign exchange transactions - gains (losses)	(5)	(126)
Bank fees	(706)	(502)
Total	**(711)**	**(628)**

5. Income taxes

Income tax expense (benefit) is comprised of the following components:

	2016	2015
Current taxes	(352)	161
Deferred taxes	1,428	197
Total	**1,076**	**358**

The current tax expense contains an expense/(benefit) of ($926) ($160 in 2015) recognized for prior periods.

The deferred tax expense/(benefit) is comprised of the following components:

	2016	2015
Deferred taxes	1,428	197
Due to tax loss carryforwards and tax credits	1,428	197

The deferred tax expense contains expense/(benefit) of $(1) (($2,410) in 2015) recognized for prior periods.

A reconciliation of expected income tax expense to actual income tax expense determined using the applicable Canada combined statutory rate of 26.9% (26.9% in 2015) is included in the following table:

	2016	2015
Expected income tax expense at Canada statutory rate	1,953	2,606
Prior year tax return and deferred tax adjustments	-	(2,250)
Other – Including Interest on amounts due from Canadian Revenue Agency (2016)	(877)	2
Actual income tax expense	**1,076**	**358**

In respect of each type of temporary difference and in respect of each type of unutilized tax losses and unutilized tax credits, the deferred tax assets/(liabilities) before offset are summarized as follows:

	2016	2015
Derivative financial instruments	(1,751)	120
Net operating loss carryforwards	-	1,428
Deferred tax assets/(liabilities)	**(1,751)**	**1,548**

(all amounts in thousands of Canadian dollars)

In 2016 and 2015, the increase in net deferred tax liability was composed of:

	2016	2015
Deferred tax expense (benefit) on derivative financial instruments charged or credited directly to related components of equity	1,871	(92)
Deferred tax expense (benefit)	1,428	197
Increase	**3,299**	**105**

Including the items charged or credited directly to related components of shareholders' equity without an effect on earnings, the expense (benefit) for income taxes consists of the following:

	2016	2015
Income tax expense (benefit)	1,076	358
Other comprehensive income/(loss)	1,871	(92)
Total	**2,947**	**266**

6. Loans and receivables from related parties

DCFI provides financing to certain DAG affiliates mainly in Canada, which are related parties for DCFI. DCFI is also responsible for administering a cash management system to manage the financial resources of DAG affiliated companies in Canada. The following sets forth receivables from these related parties for such financing, including accrued interest:

	December 31,	
	2016	**2015**
Mercedes-Benz Financial Services Canada Corporation	5,964,058	5,669,034
Daimler Trucks Canada LTD	100,024	100,016
car2go Canada Ltd.	33,133	28,079
MBarc Credit Canada Inc.	5,378	5,319
Daimler North America Corporation	-	550,274
Daimler Buses NA Ltd.	-	29,981
Daimler AG	-	43
Total	**6,102,593**	**6,382,746**

The receivables bear interest at fixed and variable rates ranging from 1.15% to 2.98%, with a weighted average interest rate of 2.00%. Variable rates are based on the Canadian Dollar Offered Rate (CDOR) and re-priced on a monthly basis. Interest income is recorded using the effective interest method. DCFI paid an interest rebate of $5,940 to MBFS Canada for 2016 as a result of matching external funding cost and administrative cost.

As of December 31, 2016, aggregate annual maturities of loans receivables from related parties including accrued interest were as follows:

	Maturities
2017	3,190,593
2018	1,507,000
2019	1,405,000
Total	**6,102,593**

(all amounts in thousands of Canadian dollars)

As of December 31, 2015, aggregate annual maturities of loans receivables from related parties including accrued interest were as follows:

	Maturities
2016	3,163,746
2017	1,907,000
2018	1,307,000
2019	5,000
Total	**6,382,746**

7. Other financial assets

Other financial assets are comprised of the following:

	December 31, 2016			**December 31, 2015**		
	Current	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Derivative financial instruments used in hedge accounting	12,975	8,704	21,679	47,109	102,228	149,337
Accrued interest	5,357	-	5,357	971	-	971
Carrying amount	**18,332**	**8,704**	**27,036**	**48,080**	**102,228**	**150,308**

8. Marketable debt securities

The marketable debt securities with a carrying amount of $717,492 (2015: $0) are part of the Group's liquidity management and comprise investments in debt instruments classified as available-for-sale. When a short-term liquidity requirement is covered with quoted securities, those securities are presented as current assets. Due to the short term nature of these instruments, the change in their fair value has been attributable to the interest component, and no changes for the fair value have been recognized in other comprehensive income or loss. Further information on marketable debt securities is provided in Note 14.

9. Equity

Share capital

At December 31, 2016 and 2015, the authorized share capital comprised 1,000 no par value shares, of which 100 shares were issued and outstanding. All issued shares were fully paid.

Capital reserves

Capital reserves primarily comprise premiums arising on the issue of shares.

Cash flow hedge reserve

The Cash flow hedge reserve comprise accumulated unrealized gains/losses on the measurement of derivative financial instruments designated in a cash flow hedge.

(all amounts in thousands of Canadian dollars)

10. Notes and bonds payable

Terms and conditions of notes and bonds payable outstanding at December 31, 2016, are as follows:

	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount
NOK Medium Term Note					
Medium Term Note	NOK	1.875%	2021	78,078	76,533
Total NOK Medium Term Notes				**78,078**	**76,533**
GBP Medium Term Note					
Medium Term Note	GBP	1.750%	2017	165,713	165,894
Medium Term Note	GBP	1.750%	2017	115,999	116,171
Total GBP Medium Term Notes				**281,712**	**282,065**
USD Medium Term Notes					
Medium Term Note	USD	USD-LIBOR+0.90%	2017	47,110	47,087
Medium Term Note	USD	USD-LIBOR+0.45%	2018	40,379	40,380
Total USD Medium Term Notes				**87,489**	**87,467**
EURO Medium Term Notes					
Medium Term Note	EUR	EUR-EURIBOR+0.14%	2017	198,632	198,631
Medium Term Note	EUR	EUR-EURIBOR+0.18%	2017	283,760	283,746
Medium Term Note	EUR	EUR-EURIBOR+0.18%	2017	141,880	141,873
Medium Term Note	EUR	EUR-EURIBOR+0.35%	2017	283,760	283,706
Medium Term Note	EUR	EUR-EURIBOR+0.35%	2017	283,760	283,635
Medium Term Note	EUR	EUR-EURIBOR+0.38%	2018	283,760	283,760
Medium Term Note	EUR	2.000%	2018	70,940	70,736
Medium Term Note	EUR	EUR-EURIBOR+0.35%	2018	354,700	354,700
Medium Term Note	EUR	EUR-EURIBOR+0.27%	2018	283,760	283,531
Medium Term Note	EUR	EUR-EURIBOR+0.65%	2018	283,760	285,778
Total Euro Medium Term Notes				**2,468,712**	**2,470,096**
Canadian Dollar Bonds					
Bond	CAD	2.230%	2017	400,000	399,925
Bond	CAD	2.270%	2018	400,000	403,721
Bond	CAD	1.420%	2018	325,000	324,539
Bond	CAD	2.375%	2019	100,000	102,430
Bond	CAD	3MCAD-BA+0.83%	2019	250,000	249,475
Bond	CAD	1.780%	2019	450,000	449,321
Bond	CAD	1.800%	2019	250,000	249,995
Bond	CAD	1.875%	2020	100,000	101,125
Bond	CAD	1.910%	2021	500,000	486,560
Bond	CAD	2.230%	2021	450,000	446,094
Total Canadian Dollar Bonds				**3,225,000**	**3,213,185**
Total				**6,140,991**	**6,129,346**

(all amounts in thousands of Canadian dollars)

11. Commercial paper

In July 2011, DCFI entered into a $2,500,000 private placement of a commercial paper program. As of December 31, 2016, the amount outstanding under the commercial paper program was $468,151 compared to $555,176 as of December 31, 2015. Fixed interest rates range from 0.87% to 1.14% and maturity dates range from January 3, 2017 to November 1, 2017.

12. Payables to related parties

The following table sets forth amounts payable to related parties:

	December 31,	
	2016	**2015**
Daimler Trucks Canada Ltd.	160,044	78,706
Mercedes-Benz Canada Inc.	80,736	117,363
Daimler AG	32,145	10,065
Thomas Built Buses of Canada Ltd.	14,497	7,907
SelecTrucks of Toronto Inc.	4,446	3,235
MFTA Canada, Inc.	1,366	2,043
Daimler North America Corporation	676	1,710
car2go Canada Ltd.	-	9,168
Total	**293,910**	**230,197**

Payables to the related parties consist of intercompany cash balances. The variable interest rates are based on an average overnight bank rate and re-priced on a monthly basis. As of December 31, 2016, the weighted average interest rate on these deposits was 0.47%.

13. Other financial liabilities

Other financial liabilities are comprised of the following:

	December 31, 2016			December 31, 2015		
	Current	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Derivative financial instruments used in hedge accounting	87,042	73,115	160,157	-	5,468	5,468
Accrued interest	26,613	-	26,613	23,172	-	23,172
Carrying amount	**113,655**	**73,115**	**186,770**	**23,172**	**5,468**	**28,640**

(all amounts in thousands of Canadian dollars)

14. Financial instruments

(a) Carrying amounts and fair values of financial instruments

The following table shows the carrying amounts and fair values of the Company's financial instruments. The fair value of a financial instrument is 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. Given the varying influencing factors, the reported fair values can only be viewed as indicators of the prices that may actually be achieved on the market.

	December 31, 2016		December 31, 2015	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash and cash equivalents	**603,666**	**603,666**	**288,387**	**288,387**
Marketable debt securities	**717,492**	**717,492**	**-**	**-**
Loans and receivables				
Loans and receivables from related parties	6,102,593	6,172,534	6,382,746	6,480,880
Total loans and receivables	**6,102,593**	**6,172,534**	**6,382,746**	**6,480,880**
Accrued interest	**5,357**	**5,357**	**971**	**971**
Financial assets recognized at fair value through profit or loss				
Derivative financial instruments entered into with related parties (Daimler AG)	3,422	3,422	16,709	16,709
Derivative financial instruments used in hedge accounting	18,257	18,257	132,628	132,628
Total financial assets recognized at fair value through profit or loss	**21,679**	**21,679**	**149,337**	**149,337**
Total financial assets	**7,450,787**	**7,520,728**	**6,821,441**	**6,919,575**
Financial liabilities at amortized cost				
Notes and bonds payable	6,129,346	6,144,719	5,655,452	5,644,600
Commercial paper	468,151	468,151	555,176	555,176
Payables to related parties	293,910	293,910	230,197	230,197
Accrued interest	26,613	26,613	23,172	23,172
Total financial liabilities at amortized cost	**6,918,020**	**6,933,393**	**6,463,997**	**6,453,145**
Financial liabilities at fair value				
Derivative financial instruments used in hedge accounting	160,157	160,157	5,468	5,468
Total financial liabilities at fair value	**160,157**	**160,157**	**5,468**	**5,468**
Total financial liabilities	**7,078,177**	**7,093,550**	**6,469,465**	**6,458,613**

(all amounts in thousands of Canadian dollars)

Financial assets and liabilities measured at fair value according to IFRS 13 are classified into the following fair value hierarchy:

	December 31, 2016				December 31, 2015			
	Total	**Level 1[1]**	**Level 2[2]**	**Level 3[3]**	**Total**	**Level 1[1]**	**Level 2[2]**	**Level 3[3]**
Assets								
Derivative financial instruments entered into with related parties (Daimler AG)	**3,422**	-	3,422	-	**16,709**	-	16,709	-
Derivative financial instruments used in hedge accounting	**18,257**	-	18,257	-	**132,628**	-	132,628	-
Liabilities								
Derivative financial instruments used in hedge accounting	**160,157**	-	160,157	-	**5,468**	-	5,468	-

[1] Fair value measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
[2] Fair value measurement based on inputs for the asset or liability that are observable on active markets either directly (i.e. as prices) or indirectly (i.e. derived from prices).
[3] Fair value measurement based on inputs for the asset or liability that are not observable market data

Financial assets and liabilities not measured at fair value are classified into the following fair value hierarchy:

	December 31, 2016				December 31, 2015			
	Total	**Level 1[1]**	**Level 2[2]**	**Level 3[3]**	**Total**	**Level 1[1]**	**Level 2[2]**	**Level 3[3]**
Marketable debt securities	**717,492**	-	717,492	-	-	-	-	-
Financial assets measured at amortized cost	**6,172,534**	-	6,172,534	-	**6,480,880**	-	6,480,880	-
Financial liabilities measured at amortized cost	**6,612,870**	5,149,767	1,463,103	-	**6,199,776**	-	6,199,776	-
thereof bonds	**6,144,719**	5,149,767	994,952	-	**5,644,600**	-	5,644,600	-
thereof other financing liabilities	**468,151**	-	468,151	-	**555,176**	-	555,176	-

[1] Fair value measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
[2] Fair value measurement based on inputs for the asset or liability that are observable on active markets either directly (i.e. as prices) or indirectly (i.e. derived from prices).
[3] Fair value measurement based on inputs for the asset or liability that are not observable market data.

The fair values of financial instruments were calculated on the basis of market information available on the balance sheet date using the methods and assumptions presented below.

Cash and cash equivalents

The carrying amount of cash approximates fair value.

Marketable debt securities

When available, the Company uses quoted market prices on an active market for valuing its marketable debt securities. If quoted market prices are not available, the fair value of debt securities is determined based on discounted cash flow models based on observable interest rates to the extent available.

Loans and receivables from related parties

DCFI intends to hold loans and receivables from related parties to maturity. None of these receivables have been derecognized and the Company does not consider any of these receivables as impaired. The fair values of loans and receivables from related parties are calculated as the present values of the estimated future cash flows, using market rates.

Derivative financial instruments used in hedge accounting

These derivative financial instruments include:

- Derivative currency hedging contracts. The fair values of cross currency interest rate swaps are determined on the basis of discounted estimated future cash flows using market interest rates appropriate to the remaining terms of the financial instruments. The valuation of currency forwards is based on market quotes of forward curves; currency options were measured using price quotations or option pricing models using market data.

- Derivative interest rate hedging contracts. The fair values of interest rate hedging instruments (e.g. interest rate swaps) are calculated on the basis of the discounted estimated future cash flows using the market interest rates appropriate to the remaining terms of the financial instruments.

Notes and bonds payable

When available, the Company uses quoted market prices for its issued identical notes and bonds and classifies such instruments as Level 1 in the fair value hierarchy. If quoted market prices are not available, the fair value of notes and bonds is determined based on internal models calculating present values of the estimated cash flows and using observable inputs such as interest rates for similar types of instruments. Notes and bonds measured using simple proprietary models based on observable inputs are classified as Level 2 in the fair value hierarchy.

Commercial paper

Because of the short maturities of these financial instruments, the carrying amount approximates fair value.

Payables to related parties

The fair values of payables to related parties are calculated as the present values of the estimated future cash flows, using the interest rates set forth in the underlying intercompany loan agreements, which approximate market rates.

Other financial liabilities

Because of the short maturities of these financial instruments, the carrying amount approximates fair value.

(b) Net gains

In 2016 and 2015, the net gains (losses) of financial assets and liabilities recognized at fair value through profit or loss included in the statements of comprehensive income (not including derivative financial instruments used in hedge accounting) were $(5) and $(126), respectively. The results are from foreign currency transactions related to intercompany cash, derivatives and notes and bonds.

(all amounts in thousands of Canadian dollars)

(c) Information on derivative financial instruments

Use of derivatives

DCFI has issued notes and bonds payable in several currencies. The Company uses interest rate swaps for hedging interest risks arising from these notes and bonds. Currency risks arising from the issuance of notes and bonds in currencies other than the Canadian dollar are hedged mainly through currency forward transactions and swaps.

Fair values of hedging instruments

The table below shows the fair values of hedging instruments:

	December 31,	
	2016	**2015**
Positive fair market values		
Fair value hedges	3,322	5,587
Cash flow hedges	18,357	143,750
Negative fair market values		
Fair value hedges	23,699	-
Cash flow hedges	136,458	5,468

Fair value hedges

The Company uses fair value hedges primarily for hedging interest rate risks.

Net gain (losses) from these hedging instruments for 2016 and 2015 amounted to $(17,241) and $9,290 respectively. The offsetting changes in the value of the underlying transactions amounted to $17,528 for 2016 and $(11,074) for 2015.

Cash flow hedges

The Company uses cash flow hedges primarily for hedging currency and interest rate risks associated with the Company's financing liabilities. The hedged cash flows are expected to occur and affect profit and loss between 2017 and 2019.

In 2016 and 2015, net unrealized gains (losses) on the measurement of derivatives of $7,197 and $(108) (before the tax effect of $(1,929) and $29, respectively) were recognized in other comprehensive income without affecting earnings. The amount of hedge ineffectiveness recognized in the P&L was $0 in 2016 and 2015. In addition, in 2016 and 2015, net gains (losses) of $216 and $235 (before the tax effect of $(58) and $(63), respectively) were reclassified from equity to "interest expense – third parties."

The maturities of the interest rate hedges and currency hedges correspond with those of the underlying transactions. As of December 31, 2016, the Company expects to reclassify gains (before income taxes) of $2,325 to the statement of comprehensive income in 2017.

15. Management of financial risks

(a) Introduction

DCFI is exposed to the following risks from financial instruments:

- credit risk
- liquidity risk
- finance market risks

This note presents information about the Company's exposure to each of the above risks, the objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

(b) General information on financial risks

DCFI applies the guidelines established by its parent company, DAG, and when necessary, establishes its own guidelines unique to the transactions of the Company. The guidelines are established for risk controlling procedures and for the use of financial instruments, including a clear segregation of duties with regard to financial activities, settlement, accounting and the related controlling. The guidelines, upon which the Company's risk management processes are based, are designed to identify and analyze these risks, to set appropriate risk limits and controls and to monitor the risks by means of reliable and up-to-date administrative and information systems. The guidelines and systems are regularly reviewed and adjusted to changes in markets and businesses.

The Company manages and monitors these risks primarily through its operating and financing activities and, if required, through the use of derivative financial instruments. DCFI does not use derivative financial instruments for purposes other than risk management. Without these derivative financial instruments, the Company would be exposed to higher financial risks (additional information on financial instruments and derivative financial instruments used is included in Note 14). DCFI regularly evaluates its financial risks with due consideration of changes in key economic indicators and up-to-date market information.

(c) Credit risk

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt in accordance with the contractual terms. It encompasses both the direct risk of default and the risk of a deterioration of creditworthiness as well as concentration risks.

For DCFI, credit risk arises from the Company's receivables from related parties and derivative financial instruments concluded with related parties and third parties. As a result, the Company is exposed to these related parties', and indirectly to its parent DAG's, intent and ability to effect the repayment of these receivables.

As it pertains to the remaining assets, DCFI manages the credit risk exposure through the diversification of counterparties with the use of a Daimler Group-wide limit system based on the review of each counterparty's financial strength. During times of significant financial market volatility, DCFI's parent company, DAG reduced available limits for certain counterparties that were affected by the financial market crisis.

(all amounts in thousands of Canadian dollars)

The maximum risk positions of financial assets, which are generally can be subject to credit risk, are equal to their carrying amounts and are shown in the following table:

	See note	Maximum risk position	
		2016	**2015**
Liquid assets	8	717,492	-
Derivatives (only assets)	7	21,679	149,337
Other financial assets	7	5,357	971

Liquid assets

Liquid assets consist of cash and marketable debt securities. In connection with the investment of liquid assets, the Company is exposed to credit-related losses to the extent that banks or issuers of securities fail to fulfill their obligations.

With the investment of liquid assets, banks and issuers of securities are selected very carefully and diversified in accordance with a limit system. In line with the Daimler Group risk policy, most liquid assets are held in investments with an external rating of "A" or better.

Derivative financial instruments

Derivative financial instruments are comprised of derivatives that are either included in hedge accounting or individually valued. DCFI manages its credit risk exposure in connection with derivative financial instruments through a limit system, which is based on the review of each counterparty's financial strength. This system limits and diversifies the credit risk. As a result, the Company is exposed to credit risk only to a small extent with respect to its derivative financial instruments. According to the Company's risk policy, most derivatives are contracted with counterparties which have an external rating of "A" or better.

Receivables from related parties

The Company monitors DAG's liquidity position. DAG's financial statements are publicly available.

Debt ratings are an assessment by the rating agencies of the credit risk associated with DAG and are based on information provided by DAG or other sources. Lower ratings generally result in higher borrowing costs and reduced access to capital markets. Standard & Poor's Rating Services (S&P), Moody's Investors Service, Inc. (Moody's), Fitch Ratings Ltd. (Fitch) and DBRS rate DAG's commercial paper (short-term) and senior unsecured long-term debt (long-term). DAG's ratings as of December 31, 2016 were as follows:

	S&P	Moody's	Fitch	DBRS
Short-term debt	A-1	P-2	F2	R-1(low)
Long-term debt	A	A3	A-	A (low)

DAG's ratings as of December 31, 2015 were as follows:

	S&P	Moody's	Fitch	DBRS
Short-term debt	A-2	P-2	F2	R-1(low)
Long-term debt	A-	A3	A-	A (low)

(all amounts in thousands of Canadian dollars)

(d) Liquidity risk

Liquidity risk comprises the risk that a company cannot meet its financial obligations in full.

DCFI's main sources of liquidity are external and internal borrowings. The funds are primarily used to finance working capital and capital expenditure requirements as well as the cash needs of the lease and financing business of the DNA subsidiaries.

The Company manages its liquidity by holding adequate volumes of liquid assets and by maintaining syndicated credit facilities in addition to the cash inflow generated by its operating business. Liquid assets consist of cash and cash equivalents. In general, the Company makes use of a broad spectrum of financial instruments to cover its funding requirements. Depending on funding requirements and market conditions, the Company issues bonds and notes and commercial papers in various currencies. Adverse changes in the capital markets could increase DCFI's funding costs and limit the Company's financial flexibility.
In September 2013, the Company, together with DAG and other DAG subsidiaries, entered into a Euro 9 billion credit facility for a 5 year term and two extension options of two years in total with a syndicate of international banks. In 2014, Daimler exercised the option to extend the credit line by a further year until 2019. In 2015, Daimler exercised the second extension option to extend the credit line by a further year until 2020. Prior approval from DAG is required before the Company can access this credit line. This syndicated facility serves as a back-up for commercial paper drawings and provides funds for general corporate purposes. At December 31, 2016, this facility had not been utilized.

From an operating point of view, the management of the Company's liquidity exposures is centralized by a daily cash pooling process. This process enables DCFI to manage its liquidity surplus and liquidity requirements according to the actual needs of the Company and other DAG subsidiaries. The Company's short-term and mid-term liquidity management takes into account the maturities of financial assets and financial liabilities and estimates of cash flows from the operating business.

The liquidity runoff shown in the following table provides an insight into how the liquidity situation of the Company is affected by the cash flows from financial liabilities as of December 31, 2016. It comprises a runoff of the

- undiscounted principal and interest of the notes and bonds payable,
- undiscounted payments of commercial paper
- undiscounted sum of the net cash outflows of the derivative financial instruments for the respective time band, and
- undiscounted payments from other financial liabilities without derivatives.

	Total	**2017**	**2018**	**2019**	**2020**	**2021**
Notes and bonds – principal	4,854,022	1,804,612	1,571,360	350,000	100,000	1,028,050
Notes and bonds – interest	192,884	62,866	52,954	37,868	18,148	21,048
Commercial paper	468,600	468,600	-	-	-	-
Payables to related parties	293,910	293,910	-	-	-	-
Derivative financial instruments	140,179	88,499	51,680	-	-	-
Other financial liabilities	4,621	4,621	-	-	-	-
Total	**5,954,216**	**2,723,108**	**1,675,994**	**387,868**	**118,148**	**1,049,098**

(all amounts in thousands of Canadian dollars)

The liquidity runoff shown in the following table provides an insight into how the liquidity situation of the Company is affected by the cash flows from financial liabilities as of December 31, 2015.

	Total	**2016**	**2017**	**2018**	**2019**	**2020**
Notes and bonds – principal	5,644,965	1,857,540	2,068,453	1,068,972	550,000	100,000
Notes and bonds – interest	143,281	66,469	40,254	22,423	12,260	1,875
Commercial paper	555,600	555,600	-	-	-	-
Payables to related parties	230,197	230,197	-	-	-	-
Derivative financial instruments	6,189	-	6,189	-	-	-
Other financial liabilities	2,055	2,055	-	-	-	-
Total	**6,582,287**	**2,711,861**	**2,114,896**	**1,091,395**	**562,260**	**101,875**

Interest payments on the notes and bonds are at fixed and floating rates.

The undiscounted cash outflows of this runoff are subject to the following conditions:

- Cash outflows from payables to related parties include interest payments on intercompany loans, which are based on forward rates. The outflows do not include future interest payments on outstanding cash sweep balances as these balances change daily and the interest on these balances, as a result, cannot be determined reliably. The Company believes that the interest payments resulting from cash sweep payables are insignificant.

- Besides derivative financial instruments bearing a negative fair value, this analysis also comprises derivative financial instruments with a positive fair value due to the fact that all derivative financial instruments and not necessarily derivative financial instruments of negative fair value only may contain net cash outflows.

- The cash flows of floating interest financial instruments are estimated on the basis of forward rates.

(e) Finance market risk

The global nature of its business exposes DCFI to significant market risks resulting from fluctuations in foreign currency exchange rates and interest rates. If these market risks materialize, they will adversely affect the Company's profitability, liquidity and capital resources and financial position. Management of market price risks aims to minimize the impact of fluctuations in foreign exchange rates and interest rates. DCFI calculates its overall exposure to these market price risks to provide a basis for hedging decisions, which include the selection of hedging instruments and the determination of hedging volumes and the corresponding periods. Decisions regarding the management of market risks resulting from fluctuations in foreign exchange rates, interest rates (asset-/liability management) are regularly made by the relevant DAG risk management committees. The Company maintains risk management control systems independent of Corporate Treasury and with a separate reporting line.

DCFI holds a variety of interest rate sensitive assets and liabilities to manage the liquidity and cash needs of its day-to-day operations. The general policy is to match funding in terms of maturities and interest rates, where economically feasible. In order to achieve the targeted interest rate risk positions in terms of maturities and interest rate fixing periods, DCFI uses derivative financial instruments (e.g. interest rate swaps). The interest rate risk position is assessed by comparing assets and liabilities for corresponding maturities, including the impact of the relevant derivative financial instruments.

The Company is also exposed to the risk of changes in exchange rates. Derivative exchange rate instruments are used to reduce this risk. The risk resulting from these transactions in 2016 and 2015 was not, and is not currently, significant to DCFI.

(all amounts in thousands of Canadian dollars)

16. Related party relationships

For transactions and balances with other DAG subsidiaries, refer to notes 6 and 12.

DCFI is charged fees for the full and unconditional guarantees on its outstanding notes and bonds payable and commercial paper, which are issued under DAG's programs. These fees are calculated as a set percentage of the outstanding notes and bonds and commercial paper for any given year. These expenses were $7,488 and $6,696 for the years ended December 31, 2016 and 2015, respectively and are included in interest expense - related parties. The Company is charged for administrative overhead expenses by Daimler North America Corporation (DNAC). These expenses were $3,562 and $3,505 for the years ended December 31, 2016 and 2015, respectively, and are included in administrative and other expense.

The authority and responsibility for planning, directing and controlling the activities of DCFI resides within DAG's Corporate Treasury and Tax departments rather than with the directors of the entity. Accordingly, the Company does not have key management personnel.

17. Capital management

DCFI is subject to the capital management at the DAG parent level. DAG uses net assets and value added as its basis for capital management. Net assets are managed on a divisional level at DAG rather than at a regional or company level. Accordingly, the net assets of the Company are not subject to review for capital management, but rather are reviewed as part of the net assets of the DAG divisions to which Company net assets are allocated. Value added shows the extent to which DAG achieves or exceeds the minimum return requirements of the shareholders and creditors, thus creating additional value. DCFI monitors the required rate of return on net assets, and thus the cost of capital in accordance with DAG guidelines.

The Company is part of the worldwide financial management that is performed for all Daimler Group entities by DAG's Corporate Treasury. Financial management operates within a framework of guidelines, limits and benchmarks; for DCFI, these are described in more detail in note 15.

18. Events after the reporting period

On February 3, 2017 Moody's upgraded DAG's rating for short-term debt from P-2 to P-1 and the rating for long-term debt from A3 to A2. The following table presents DAG's comprehensive rating as of February 3, 2017:

	S&P	Moody's	Fitch	DBRS
Short-term debt	A-1	P-1	F2	R-1(low)
Long-term debt	A	A2	A-	A (low)