Daimler Canada Finance Inc.

Annual Report 2018

Table of Contents

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.

Farmington Hills, MI (USA), April 29, 2019

Rodrigo Garnica	*Christoph Rieker*
President & Chief Executive Officer	*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 other 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," "can", "could", "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.
- 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, 2018 and 2017, 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 $168,147 in 2018 compared to $128,431 in 2017. The 30.9% increase is mainly caused by higher average related party receivables and higher interest rates.

Interest expense

Interest expense was $157,464 in 2018 compared to $115,814 in 2017. The 36% increase is mainly caused by higher average notes and bonds interest rates.

Administrative and other expense

Administrative and other expense increased to $4,491 in 2018 from $4,100 in 2017 mainly due to increases in professional fees and labor related costs.

Other financial expense, net

Other financial expense, net was $853 in 2018, compared to $240 in 2017, due to increased bank fees.

(all amounts in thousands of Canadian dollars)

Profit before income taxes

Profit before income taxes decreased to $5,339 in 2018 compared to $8,277 in 2017, due to the fact that interest expense increased more than interest income. Receiving an interest rebate of $2,300 from Mercedes-Benz Financial Services Canada Corporation (MBFS Canada) to match external funding cost attributed to a lower decrease in profit before income taxes.

Income tax expense

The Company recorded an income tax expense of $1,426 in 2018 compared with $2,228 in 2017. The change in tax expense from 2017 to 2018 is comparable to the change in earnings respectively.

Other comprehensive income

Other comprehensive income was comprised of unrealized gains and losses from cash flow hedges. The Company recorded net losses after taxes of $(10,992), including first time adoption of IFRS9 adjustment of $(178) in 2018, compared to net gains after taxes of $993 in 2017.

Financial position

Total assets were $8,149,233 at December 31, 2018 compared to $7,229,881 at December 31, 2017, an increase of 12.7%. This change is mainly due to increases in receivables from related parties and other financial assets. Total liabilities also increased to $7,776,021 at December 31, 2018 from $6,849,868 at December 31, 2017, an increase of 13.5%. This change is primarily due to higher payables to related parties. Total equity decreased to $373,212 at December 31, 2018 from $380,013 at December 31, 2017 because of net income of $3,913 in 2018, first time adoption of IFRS 9 adjustment of $278, as well as $(10,992) other comprehensive income from cash flow hedges. For details on the first time adoption of IFRS 9 adjustment, please refer to Note 2 (b).

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 2018 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 2018 and in 2017:

	2018	**2017**
Net cash provided by/(used for) operating activities	256,075	(764,974)
Net cash provided by/(used for) investing activities	-	717,492
Net cash provided by/(used for) financing activities	125,243	(257,832)

Net cash inflows from operating activities were $256,075 in 2018 compared to net cash outflows of $764,974 in 2017 mainly due to a net decrease of operating receivables and operating payables from related parties.

Investing net cash flows were $0 in 2018 compared to net cash inflows of $717,492 in 2017 due to the fact that investments made in marketable debt securities matured during the year.

Net cash inflows from financing activities were $125,243 for 2018 compared to cash outflows of $257,832 for 2017. This change is comprised of new issuances of notes and bonds and commercial paper offset by a lower 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

As an open economy, Canada's performance has been and will continue to be synchronized with the rest of the global economy which is faced with uncertainty. While Canada is expected to have moderate growth, two of the biggest concerns confronting the global economy are the trade war between the United States and China and no resolution in the potential departure of the United Kingdom from the European Union. These factors could lead to weaker global growth, lower commodity prices, and negative economic and financial consequences globally over the next couple of years. This could have significant adverse effects on the Daimler businesses in Canada and, as a result, on the future financial position of the Company.

Tighter financial conditions have moved a number of central banks to pivot in a more dovish direction, however one possible rate hike is still expected in Canada for the fourth quarter of 2019. A potential slowdown of the Canadian and worldwide economies could result in a 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 16 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, 2018, the Company had nine officers and a board of directors which comprised three members. 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 16 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 2019. This expectation is based on the assumption of a stable economic development and continuation of the Company's business model.

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, 2018 and 2017, 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, 2018 and 2017, and its financial performance 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 29, 2019

(all amounts in thousands of Canadian dollars)

Statement of Comprehensive Income

		Year ended December 31,	
	Note	2018	2017
Interest income			
Interest income – related parties		163,753	124,285
Interest income – third parties		4,394	4,146
Total interest income		**168,147**	**128,431**
Interest expense			
Interest expense – third parties		(144,127)	(104,919)
Interest expense – related parties		(13,337)	(10,895)
Total interest expense		**(157,464)**	**(115,814)**
Net interest income		**10,683**	**12,617**
Administrative and other expense	17	(4,491)	(4,100)
Other financial expense, net	4	(853)	(240)
Profit before income taxes		**5,339**	**8,277**
Income tax expense	5	(1,426)	(2,228)
Net profit		**3,913**	**6,049**
Other comprehensive income			
Items that are or may be reclassified to profit/(loss)			
Cash flow hedge reserve – effective portion of changes in fair value[1]		(6,449)	2,695
Cash flow hedge reserve – reclassification to profit or loss[1]		(2,796)	(1,702)
Cost of hedging reserve – changes in fair value[1]		(2,713)	-
Cost of hedging reserve – reclassification to profit or loss[1]		1,144	-
Other comprehensive income/(loss), net of taxes		**(10,814)**	**993**
Total comprehensive income/(loss)		**(6,901)**	**7,042**

[1] Net of taxes

The accompanying notes on pages 13 to 39 are an integral part of the financial statements.

(all amounts in thousands of Canadian dollars)

Statement of Financial Position

		Year ended December 31,	
	Note	**2018**	**2017**
Assets			
Receivables from related parties	6	4,200,000	3,405,000
Other financial assets	7	59,376	10,452
Deferred tax assets	5	1,890	-
Total non-current assets		**4,261,266**	**3,415,452**
Receivables from related parties	6	3,181,690	3,479,773
Cash and cash equivalents	3	679,670	298,352
Other financial assets	7	26,124	35,593
Other assets		147	-
Tax receivables		336	711
Total current assets		**3,887,967**	**3,814,429**
Total assets		**8,149,233**	**7,229,881**
Equity and liabilities			
Share capital	8	-	-
Capital reserves		394,137	394,137
Accumulated deficit		(15,709)	(19,900)
Cash flow hedge reserve		(1,859)	5,776
Cost of hedging reserve		(3,357)	-
Total equity	8	**373,212**	**380,013**
Notes and bonds payable	9	4,728,477	3,736,949
Other financial liabilities	13	27,303	43,683
Deferred tax liabilities	5	-	2,105
Total non-current liabilities		**4,755,780**	**3,782,737**
Provisions and other liabilities		125	4
Payables to related parties	12	1,053,320	300,985
Notes and bonds payable	9	1,519,997	2,349,445
Commercial paper	10	407,774	373,632
Liabilities to banks	11	-	904
Other financial liabilities	13	39,025	42,161
Total current liabilities		**3,020,241**	**3,067,131**
Total liabilities		**7,776,021**	**6,849,868**
Total equity and liabilities		**8,149,233**	**7,229,881**

The accompanying notes on pages 13 to 39 are an integral part of the financial statements.

(all amounts in thousands of Canadian dollars)

Statement of Changes in Equity

	Share capital	Capital reserves	Accumulated deficit	Cash flow Hedge reserve	Cost of hedging reserve	Total equity
Balance at January 1, 2017	**-**	**394,137**	**(25,949)**	**4,783**	**-**	**372,971**
Net profit	-	-	6,049	-	-	6,049
Other comprehensive income before taxes	-	-	-	1,347	-	1,347
Deferred taxes on other comprehensive income	-	-	-	(354)	-	(354)
Total comprehensive income	**-**	**-**	**6,049**	**993**	**-**	**7,042**
Balance December 31, 2017	**-**	**394,137**	**(19,900)**	**5,776**	**-**	**380,013**
First-time adoption of IFRS 9	-	-	278[2]	1,610	(1,788)	100
Balance at January 1, 2018 (adjusted)[1]	**-**	**394,137**	**(19,622)**	**7,386**	**(1,788)**	**380,113**
Net profit	-	-	3,913	-	-	3,913
Other comprehensive (loss) before taxes	-	-	-	(12,610)	(2,134)	(14,744)
Deferred taxes on other comprehensive (loss)	-	-	-	3,365	565	3,930
Total comprehensive income/(loss)	**-**	**-**	**3,913**	**(9,245)**	**(1,569)**	**(6,901)**
Balance at December 31, 2018	**-**	**394,137**	**(15,709)**	**(1,859)**	**(3,357)**	**373,212**

[1] The prior-year figures have been adjusted due to the effects of the first-time adoption of IFRS 9. Information on adjustments to prior-year figures is disclosed in note 2 of the notes to these financial statements.
[2] Includes $36 USD from change in calculation of basis adjustment.

The accompanying notes on pages 13 to 39 are an integral part of the financial statements.

(all amounts in thousands of Canadian dollars)

Statement of Cash Flows

		Year ended December 31,	
	Note	**2018**	**2017**
Net profit		3,913	6,049
Adjustments for			
Foreign exchange (gains)/losses		(1,295)	(87)
Non-cash interest (income)/expense		(15,866)	(504)
Changes in			
Tax receivables		375	1,388
Other assets, provisions and accrued interest		13,530	3,285
Receivables from and payables to related parties	6, 12	255,418	(775,105)
Cash provided by/(used for) operating activities		**256,075**	**(764,974)**
Acquisition of marketable debt securities		(99,900)	(1,131,245)
Proceeds from sales of marketable debt securities		99,900	1,848,737
Cash provided by/(used for) investing activities		**-**	**717,492**
Issuances of notes and bonds payable[1]	9	2,422,089	1,832,714
Issuances of commercial paper[2]	10	65,815	26,993
Repayment of notes and bonds payable[1]	9	(2,329,927)	(1,996,895)
Repayment of commercial paper	10	(31,830)	(121,548)
Proceeds from loans and borrowings	11	-	904
Repayment of loans and borrowings		(904)	-
Cash provided by/(used for) financing activities		**125,243**	**(257,832)**
Net increase/(decrease) in cash and cash equivalents		**381,318**	**(305,314)**
Cash and cash equivalents at the beginning of the period	3	**298,352**	**603,666**
Cash and cash equivalents at the end of the period	3	**679,670**	**298,352**
Supplemental information:[3,4]			
Interest paid		(159,306)	(117,972)
Interest received		163,136	126,574
Income taxes paid		(1,046)	(1,750)

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

The accompanying notes on pages 13 to 39 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 reportable segment.

The Company's ultimate parent DAG produces consolidated financial statements that are available for public use.

On April 29, 2019 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 and applied for the first time

IFRIC 23 Uncertainty over Income Tax Treatments

Application of IFRIC 23 Uncertainty over Income Tax Treatments. In October 2018, IFRIC 23 Uncertainty over Income Tax Treatments was endorsed by the EU. IFRIC 23 has to be applied to annual reporting periods beginning on or after January 1, 2019. Early adoption is permitted. DCFI has chosen to apply IFRIC 23 at December 31, 2018. The application does not have any material impact on the Group's profitability, liquidity and capital resources and financial position as the former DCFI accounting policy was very close to IFRIC 23.

Application of IFRS 9 Financial Instruments

DCFI has adopted IFRS 9 using the cumulative effective method with the effect of initially applying this standard recognized at the date of initial application of January 1, 2018 in accumulated deficit. Accordingly, the information presented for 2017 has not been restated (i.e. it is presented as previously reported, under IAS 39).

IFRS 9 requirements are applied prospectively except for the following:

- Changes to hedge accounting policies have been applied prospectively, except the cost of hedging approach for currency basis spread, which has been applied retrospectively to hedging relationships that existed on or were designated after January 1, 2018.

- All hedging relationships designated under IAS 39 as of December 31, 2017 met the criteria for hedge accounting under IFRS 9 at January 1, 2018 and are therefore regarded as continued hedging relationships.

- If a financial instrument had low credit risk at the date of initial application of IFRS 9, then DCFI assumed that the credit risk had not increased significantly since its initial recognition.

(all amounts in thousands of Canadian dollars)

Initial application of IFRS 9 led to the following major changes:

Hedge accounting

DCFI designates and documents the hedge relationship from the date a derivative contract is entered into as a fair value hedge or a cash flow hedge. The accounting model under IFRS 9 requires DCFI to ensure that hedging relationships are aligned with objectives and strategy of risk management.

Under IFRS 9, DCFI excludes currency basis spread from the hedge relationship for cross-currency interest rate swaps used in fair value and cash flow hedges. The changes in the fair value of the currency basis spread is accounted as a cost of hedging, which is deferred in OCI and subsequently recognized in profit or loss in interest expense – third parties over the term of the hedging relationship.

The following table shows the effects of the application of cost of hedging treatment of currency basis spreads on the components of equity from the first time adoption of IFRS 9.

	Impact of adopting IFRS 9 on opening balance January 1, 2018
Cash flow hedge reserve	
Reclassification of currency basis spread from cash flow reserve to cost of hedging reserve, net of taxes	2,197
Related tax	(587)
Impact at January 1, 2018	**1,610**
Cost of hedging reserve	
Cumulative change of currency basis spread and amortization of initial currency basis spread, net of tax	(2,439)
Related tax	651
Impact at January 1, 2018	**(1,788)**
Accumulated deficit	
Cash flow hedge reserve adjustment	(2,197)
Cost of hedging adjustment	2,439
Related tax	-
Impact at January 1, 2018	**242**

Classification and measurement of financial assets and financial liabilities

IFRS 9 introduces a comprehensive classification model for financial assets that classifies financial assets into three categories: financial assets at amortized costs, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss. Under IAS 39, financial assets were classified as loans and receivables, available-for-sale financial assets and financial assets at fair value through profit and loss. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on DCFI's accounting policies related to financial assets and liabilities.

The following table shows the measurement categories of financial instruments according to IAS 39 as well as the new measurement categories and carrying amounts of financial instruments according to IFRS 9.

	Measurement categories according to IAS 39	Measurement categories according to IFRS 9	Carrying amount according to IAS 39 at Dec 31, 2017	Carrying amount according to IFRS 9 at Jan 1, 2018
Financial Assets				
Receivables from related parties	Loans and receivables	Amortized cost	6,884,773	6,884,773
Derivative financial instrument used in hedge accounting	Fair value-hedging instrument	Fair value-hedging instrument	42,915	42,915
Accrued Interest	Amortized cost	Amortized cost	3,130	3,130
Total financial assets			**7,229,170**	**7,229,170**
Financial liabilities				
Notes and bonds, commercial paper, payables to related parties and liabilities to banks	Amortized cost	Amortized cost	6,761,915	6,761,915
Derivative financial instrument used in hedge accounting	Fair value-hedging instrument	Fair value-hedging instrument	58,190	58,190
Accrued Interest	Amortized cost	Amortized cost	27,654	27,654
Total financial liabilities			**6,847,759**	**6,847,759**

Impairment model based on expected credit losses

IFRS 9 introduces the expected loss impairment approach to be applied on all financial assets other than those measured at fair value through profit or loss. Under IAS 39, these instruments were assessed to determine whether there has been objective evidence of impairment. Objective evidence may exist for example if a debtor is facing serious financial difficulties or there is a substantial change in the debtor’s technological, economic, legal, or market environment. Incurred losses were recognized as an impairment of financial assets. Under IFRS 9, credit losses are recognized earlier.

Receivables from related parties are considered to have a low credit risk. DCFI considers the 12-month expected credit losses for receivables from related parties as immaterial. For additional information about the impairment of financial assets, refer to note 3(d).

(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.

(f) Accounting management judgments and estimates

The preparation of financial statements requires management to make estimates and judgements that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Management's most important estimates relate to the fair values of the Company's notes and bonds payable and receivables from related parties. Refer to note 16 for additional information.

Estimates and judgements 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.

Management Judgements

Recoverability of receivables from related parties

At each reporting date, the carrying amounts of receivables from related parties are evaluated to determine whether there is objective significant increase in credit risk since initial recognition. Through December 31, 2018, the credit risk on receivables from related parties has not increased significantly since initial recognition. Therefore, the loss allowance for receivables from related parties are measured at an amount equal to 12-month expected credit losses. Receivables from related parties are considered to have a low risk of default. Management considers the 12-month expected credit losses for receivables from related parties as immaterial.

Under IAS 39, the receivables from related parties were assessed to determine whether there has been objective evidence of impairment. Incurred losses were recognized as an impairment of the receivable from related parties.

Estimates

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

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. 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 non-complex 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".

(c) Income taxes

Income taxes are comprised of current income taxes and deferred taxes.

Current income taxes are calculated 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 finally assessed, however, excluding interest expenses and interest refunds and penalties on the underpayment of taxes. For the case it is probable that amounts declared as expenses in the tax returns might not be recognized (uncertain tax positions), a provision for income taxes is recognized. The amount is based on the best estimate of the expected tax payment (expected value or most likely amount). Tax refund claims from uncertain tax positions are recognized when it is probable that they can be realized. No provision for taxes or tax claim is recognized for uncertain tax positions when tax loss carryforwards or unused tax credits exist. 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 deferred taxes in statement of comprehensive income, except for changes recognized in other comprehensive income/loss or directly in equity.

Deferred tax assets or liabilities are calculated on the basis of temporary differences between the tax basis and carrying value of assets and liabilities including differences from consolidation, on unused tax loss carryforwards and unused tax credits. Measurement is based on the tax rates expected to be effective 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 the taxable profit at the level of the relevant tax authority will be available for the utilization of the deductible temporary difference.

(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 and liabilities 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 in IFRS 9 Financial Instruments (financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss). 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 receivables from related parties, cash and cash equivalents, and derivative financial assets. The classification of financial instruments is based on the business model in which these instruments are held and on their contractual cash flows.

Financial assets that give rise to cash flows consisting only of payments of principal and interest are classified in accordance with DCFI's business model for holding these instruments. Financial assets that are held in a business model with the objective to hold them until maturity and collect the contractual cash flows are measured at amortized cost. These business models are managed principally based on interest-rate structure and credit risk. If the business model comprises the intention to hold the financial assets to collect the contractual cash flows but expects to sell these financial assets if this is necessary, e.g. to fulfill a specific need for liquidity, then these instruments are measured at fair value through other comprehensive income.

For the purposes of this assessment, "principal" is defined as the fair value of the financial assets on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.
In assessing whether the contractual cash flows are solely payments of principal and interest, DCFI considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making this assessment, DCFI considers:

- contingent events that would change the amount or timing of cash flows
- terms that may adjust the contractual coupon rate, including variable-rate features
- prepayment and extension features
- terms that limit DCFI's claim to cash flows of specified assets (e.g. non-recourse features)

The determination of the business model is made at the portfolio level and is based on management's intention and past transaction patterns. Assessments of the contractual cash flows are made on an instrument by instrument basis.

Financial assets at amortized cost

Financial assets at amortized cost are non-derivative financial assets with contractual cash flows that consist solely of payments of principal and interest on the nominal amount outstanding and which are held with the aim of collecting the contractual cash flows, such as receivables from related parties or cash and cash equivalents (business model "hold to collect").

After initial recognition, financial assets at amortized cost are subsequently carried at amortized cost using the effective interest method less any loss allowances. Gains and losses are recognized in profit or loss when the financial assets at amortized cost are impaired or derecognized. Interest effects on the application of the effective interest method are also recognized in profit or loss.

Receivables from related parties

Under IAS 39, receivables from related parties were non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Under IFRS 9, receivable from related parties are non-derivative financial assets with contractual cash flows that consist solely of payments of principal and interest on the nominal amount outstanding and which are held with the aim of collecting the contractual cash flows.

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, 2018 was $679,670 compared to $298,352 at December 31, 2017. There were no cash equivalents in 2018 or 2017, respectively.

Impairment of financial assets

DCFI recognizes loss allowances for expected credit losses for financial assets. The loss allowance for financial assets that are determined to have low credit risk at the reporting date or for which credit risk has not increased significantly since recognition (including receivable from related parties) are measured at 12-month expected credit losses.

When determining if the credit risk of a financial asset has increased significantly DCFI considers reasonable and supportable information that is relevant and available without undue cost or effort, including quantitative and qualitative information based on historical experience and forward-looking information.

DCFI assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The low credit risk exception is applied by DCFI for receivables from related parties.

Measurement of expected credit losses

Expected credit losses are measured as the probability-weighted present value of all cash shortfalls over the expected life of each financial asset. 12-months expected credit losses are a portion of expected credit losses that result from default events that are possible within the next 12 months after the reporting date. Expected credit losses are discounted at the effective interest rate of the financial asset.

A financial instrument is written off when there is no reasonable expectation of recovering it in its entirety or a portion thereof, for example at the end of insolvency proceedings or after a court decision of uncollectibility.

(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

Financial liabilities are initially measured at fair value minus transaction cost. After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method.

(g) Derivative financial instruments and hedge accounting

DCFI uses derivative financial instruments (e.g. 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.

(CVA)/DVA was $(344) at December 31, 2018 compared to $109 at December 31, 2017.

If the requirements for hedge accounting set out in IFRS 9 are met, DCFI designates and documents the hedge relationship from the date a derivative contract is entered into as a fair value hedge or a cash flow hedge. In a fair value hedge, the changes in the fair value of a recognized asset or liability or an unrecognized firm commitment are hedged. In a cash flow hedge, the variability of cash flows to be received or paid from expected transactions related to a recognized asset or liability or a highly probable forecast 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 the risk being hedged, the identification of the eligible hedging instrument and the eligible hedged item, as well as an assessment of the effectiveness requirements comprising the risk mitigating economic relationship, the absence of deteriorating effects from credit risk and the appropriate hedge ratio. Hedging transactions are regularly assessed to determine whether the effectiveness requirements are met while they are designated.

Changes in the fair value of derivative financial instruments that are designated in a hedge relationship are recognized periodically in either profit or loss or other comprehensive income, 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 for the hedged risks and the derivative are recognized in profit or loss. The ineffectiveness portions of fair value changes related to fair value hedges are recognized directly in profit or loss in interest expenses – third parties.

For cash flow hedges, fair value changes in the effective portion of the hedging instrument are recognized after tax in other comprehensive income. The accumulated hedging gains or losses from the cash flow hedging instruments are reclassified from the reserves for derivative financial instruments to the statement of comprehensive income when the hedged item affects profit or loss.

Under IAS 39, currency basis spreads as part of cross-currency interest rate swaps designated in a hedge relationship were included in the hedge designation. Under IFRS 9, currency basis spreads are now excluded from the hedge designation. The initial currency basis spread is amortized over the lifetime of the derivative on a straight line basis. The subsequent changes in the fair value of the currency basis spread are accounted as a cost of hedging, which are deferred in OCI and subsequently recognized in profit or loss in interest expense – third parties over the term of the hedging relationship.

Hedge relationships are to be discontinued prospectively if a particular hedge relationship ceases to meet the qualifying criteria for hedge accounting under IFRS 9. Instances that require discontinuation of hedge accounting are, among others, loss of the economic relationship between the hedged item and the hedging instrument, disposal or termination of the hedging instrument, or a revision of the documented risk management objective of a particular hedge relationship. Accumulated hedging gains and losses from cash flow hedges are retained in the hedge reserve and are reclassified when the hedged cash flows affect profit or loss. Otherwise, if the hedged cash flows are no longer expected to occur, the accumulated hedging gains and losses are immediately reclassified to profit or loss. Accumulated hedging gains and losses from fair value hedges are retained within the hedged item and amortized over the remaining lifetime of the hedged item on a straight line basis.

(all amounts in thousands of Canadian dollars)

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.

4. Other financial expense, net

Other financial expense, net is comprised of the following:

	2018	2017
Result of foreign exchange transactions - gains (losses)	(258)	59
Bank fees	(595)	(299)
Total	**(853)**	**(240)**

5. Income taxes

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

	2018	2017
Current taxes	(1,426)	(2,228)
Deferred taxes	-	-
Total	**(1,426)**	**(2,228)**

The current tax expense contains an (expense)/benefit of zero (($10) expense in 2017) 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 26.7% (26.8% in 2017; reduction in provincial rate) is included in the following table:

	2018	2017
Expected income tax expense at Canada statutory rate	(1,426)	(2,218)
Prior year tax return and deferred tax adjustments	-	1
Other	-	(11)
Actual income tax expense	**(1,426)**	**(2,228)**

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:

	2018	2017
Derivative financial instruments	1,890	(2,105)
Deferred tax assets/(liabilities)	**1,890**	**(2,105)**

(all amounts in thousands of Canadian dollars)

In 2018 and 2017, the increase in net deferred tax asset was composed of:

	2018	2017
Deferred tax (expense)/benefit in the statement of comprehensive income	-	-
Change in deferred tax (expense)/benefit on derivative financial instruments included in other comprehensive income/(loss)	3,930	(354)
Total	**3,930**	**(354)**

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:

	2018	2017
Income tax (expense)/benefit in the statement of comprehensive income	(1,426)	(2,228)
Income tax (expense)/benefit recorded in other comprehensive income/(loss)	3,930	(354)
Total	**2,504**	**(2,582)**

6. 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,	
	2018	2017
Mercedes-Benz Financial Services Canada Corp	7,098,502	6,539,259
Mercedes-Benz Canada Inc.	275,993	276,014
Mascot Truck Parts Canada Ltd	4,740	-
Daimler AG	1,648	42,014
car2go Canada Ltd.	807	22,043
MBarc Credit Canada Inc.	-	5,443
Total	**7,381,690**	**6,884,773**

The receivables bear interest at fixed and variable rates ranging from 1.86% to 3.65%, with a weighted average interest rate of 2.29%. 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 received an interest rebate of $2,300 from MBFS Canada for 2018, compared to a payment of $6,750 to MBFS Canada for 2017. Based on the contractual agreement, DCFI charges MBFS Canada only for the actual external funding cost and its administrative cost. The amount of the interest rebate is derived as the difference between the interest paid by MBFS Canada and the actual interest expenses including administrative cost incurred for DCFI. This interest rebate is included in interest income – related parties.

(all amounts in thousands of Canadian dollars)

As of December 31, 2018, aggregate annual maturities of loans receivables from related parties including accrued interest were as follows:

	Maturities
2019	3,181,690
2020	2,050,000
2021	2,150,000
Total	**7,381,690**

As of December 31, 2017, aggregate annual maturities of loans receivables from related parties including accrued interest were as follows:

	Maturities
2018	3,479,773
2019	1,505,000
2020	1,900,000
Total	**6,884,773**

7. Other financial assets

Other financial assets are comprised of the following:

	December 31, 2018			December 31, 2017		
	Current	Non-current	Total	Current	Non-current	Total
Derivative financial instruments used in hedge accounting	24,682	59,376	84,058	32,463	10,452	42,915
Accrued interest	1,442	-	1,442	3,130	-	3,130
Carrying amount	**26,124**	**59,376**	**85,500**	**35,593**	**10,452**	**46,045**

[1] Comprises of accrued interest from derivative financial instruments.

8. Equity

(a) Share capital

At December 31, 2018 and 2017, 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.

(b) Reserves

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)

Cost of hedging reserve

The cost of hedging reserve reflects gains or losses on the portion excluded from the designated hedging instrument that relates to the currency basis spread of cross-currency interest rate swaps. It is initially recognized in other comprehensive income and accounted for in profit or loss, pro rata in the caption interest expense – third parties.

9. Notes and bonds payable

Terms and conditions of notes and bonds payable outstanding at December 31, 2018, 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	78,450	77,760
Total NOK Medium Term Notes				**78,450**	**77,760**
EURO Medium Term Notes					
Medium Term Note	EUR	3M-EUR-EURIBOR + 0.65%	2019	468,150	469,641
Medium Term Note	EUR	3M-EUR-EURIBOR + 0.60%	2020	468,150	470,731
Medium Term Note	EUR	3M-EUR-EURIBOR + 0.40%	2020	390,125	391,611
Medium Term Note	EUR	3M-EUR-EURIBOR + 0.40%	2020	468,150	469,132
Total Euro Medium Term Notes				**1,794,575**	**1,801,115**
Canadian Dollar Bonds					
Bond	CAD	2.375%	2019	100,000	100,268
Bond	CAD	3M-CAD-BA + 0.83%	2019	250,000	249,892
Bond	CAD	1.780%	2019	450,000	449,778
Bond	CAD	1.800%	2019	250,000	250,418
Bond	CAD	1.875%	2020	100,000	100,357
Bond	CAD	3M-CDOR + 0.33%	2020	175,000	174,822
Bond	CAD	3M-CDOR + 0.33%	2020	250,000	249,714
Bond	CAD	1.570%	2020	400,000	399,507
Bond	CAD	2.300%	2020	325,000	324,456
Bond	CAD	1.910%	2021	500,000	480,574
Bond	CAD	2.230%	2021	450,000	437,850
Bond	CAD	2.570%	2022	250,000	246,979
Bond	CAD	3.050%	2022	500,000	504,593
Bond	CAD	3.300%	2022	400,000	400,391
Total Canadian Dollar Bonds				**4,400,000**	**4,369,599**
Total				**6,273,025**	**6,248,474**

(all amounts in thousands of Canadian dollars)

10. Commercial paper

In July 2011, DCFI entered into a $2,500,000 private placement of a commercial paper program. As of December 31, 2018, the amount outstanding under the commercial paper program was $407,774 compared to $373,632 as of December 31, 2017. Fixed interest rates ranged from 1.97% to 2.26% and maturity dates range from January 3, 2019 to March 26, 2019, compared to prior year during which fixed interest rates ranged from 1.28% to 1.41% and maturity dates ranged from January 3, 2018 to March 12, 2018.

11. Liabilities to banks

As of December 31, 2018, outstanding short term liabilities to banks were $0, compared to $904 at December 31, 2017.

12. Payables to related parties

The following table sets forth amounts payable to related parties:

	December 31,	
	2018	**2017**
Daimler North America Corporation	315,649	841
Daimler AG	249,386	2,633
Mercedes-Benz Canada Inc.	218,219	141,508
MBarc Credit Canada Inc.	181,545	-
Daimler Trucks Canada Ltd.	71,742	108,037
Thomas Built Buses of Canada Ltd.	11,806	17,309
SelecTrucks of Toronto Inc.	4,574	3,618
MFTA Canada, Inc.	399	798
car2go Canada Ltd.	-	21,655
Mercedes-Benz Financial Services Canada Corporation	-	2,800
Mascot Truck Parts Canada Ltd	-	1,786
Total	**1,053,320**	**300,985**

Payables to 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, 2018, the average interest rate on these deposits was 1.38%, compared to 0.67% as of December 31, 2017.

(all amounts in thousands of Canadian dollars)

13. Other financial liabilities

Other financial liabilities are comprised of the following:

	December 31, 2018			December 31, 2017		
	Current	Non-current	Total	Current	Non-current	Total
Derivative financial instruments used in hedge accounting	-	27,303	27,303	14,507	43,683	58,190
Accrued interest[1]	39,025	-	39,025	27,654	-	27,654
Carrying amount	**39,025**	**27,303**	**66,328**	**42,161**	**43,683**	**85,844**

[1] Comprises of accrued interest from notes and bonds and derivative financial instruments.

14. Statement of cash flows

Changes in financial liabilities arising from financing activities.

Financial Liabilities	Notes and bonds payable	Commercial paper	Liabilities to banks	Derivative financial assets[4]	Derivative financial liabilities[4]	Total
Balance at January 1, 2018[1,2,3]	**6,107,099**	**373,632**	**904**	**(46,045)**	**65,103**	**6,500,693**
Proceeds from issuance	2,422,089	65,815	-	-	-	2,487,904
Repayments	(2,329,927)	(31,830)	(904)	-	-	(2,362,661)
Total changes from financing cash flows	**92,162**	**33,985**	**(904)**	**-**	**-**	**125,243**
Non-cash interest expense[5]	9,635	-	-	3,976	(14,393)	(782)
Foreign Exchange (gain)/loss	60,319	-	-	(45,119)	(16,495)	(1,295)
Interest expense[6]	99,562	8,190	21	(45,779)	83,337	145,331
Interest paid[6]	(95,124)	(8,033)	(21)	47,467	(76,404)	(132,115)
Total liability-related other changes	**74,392**	**157**	-	**(39,455)**	**(23,955)**	**11,139**
Balance at December 31, 2018[7,8,9]	**6,273,653**	**407,774**	**-**	**(85,500)**	**41,148**	**6,637,075**

[1] Notes and bonds payable balance includes accrued interest in the amount of $20,741 presented in other financial liabilities.
[2] Derivative financial assets balance includes accrued interest in the amount of $3,130 presented in other financial assets.
[3] Derivative financial liabilities balance includes accrued interest in the amount of $6,912 presented in other financial liabilities.
[4] Derivative financial assets and liabilities are used for hedging of notes and bonds payable.
[5] Notes and bonds payable balance includes fair value changes in the amount of $14,071 and amortization of discount/premium and hedge adjustments from inactive hedges in the amount of $(4,436).
[6] Interest expense and interest paid exclude amounts related to operating assets and liabilities.
[7] Notes and bonds payable balance includes accrued interest in the amount of $25,179 presented in other financial liabilities.
[8] Derivative financial assets balance includes accrued interest in the amount of $1,442 presented in other financial assets.
[9] Derivative financial liabilities balance includes accrued interest in the amount of $13,845 presented in other financial liabilities.

(all amounts in thousands of Canadian dollars)

Financial Liabilities	Notes and bonds payable	Commercial paper	Liabilities to banks	Derivative financial assets[4]	Derivative financial liabilities[4]	Total
Balance at January 1, 2017[1,2,3]	**6,151,338**	**468,151**	**-**	**(27,036)**	**164,778**	**6,757,231**
Proceeds from issuance	1,832,714	26,993	904	-	-	1,860,611
Repayments	(1,996,895)	(121,548)	-	-	-	(2,118,443)
Total changes from financing cash flows	**(164,181)**	**(94,555)**	**904**	**-**	**-**	**(257,832)**
Non-cash interest expense[5]	(29,922)	-	-	(1,875)	28,744	(3,053)
Foreign Exchange (gain)/loss	149,985	-	-	(19,361)	(130,711)	(87)
Interest expense[6]	71,921	4,095	13	(35,477)	68,929	109,481
Interest paid[6]	(72,006)	(4,059)	(13)	37,704	(66,637)	(105,011)
Total liability-related other changes	**119,978**	**36**	**-**	**(19,009)**	**(99,675)**	**1,330**
Balance at December 31, 2017[7,8,9]	**6,107,135**	**373,632**	**904**	**(46,045)**	**65,103**	**6,500,729**

[1] Notes and bonds payable balance includes accrued interest in the amount of $21,992 presented in other financial liabilities.
[2] Derivative financial assets balance includes accrued interest in the amount of $5,357 presented in other financial assets.
[3] Derivative financial liabilities balance includes accrued interest in the amount of $4,621 presented in other financial liabilities.
[4] Derivative financial assets and liabilities are used for hedging of notes and bonds payable.
[5] Notes and bonds payable balance includes fair value changes in the amount of $(29,922).
[6] Interest expense and interest paid exclude amounts related to operating assets and liabilities.
[7] Notes and bonds payable balance includes accrued interest in the amount of $20,741 presented in other financial liabilities.
[8] Derivative financial assets balance includes accrued interest in the amount of $3,130 presented in other financial assets.
[9] Derivative financial liabilities balance includes accrued interest in the amount of $6,912 presented in other financial liabilities.

(all amounts in thousands of Canadian dollars)

15. Financial instruments

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, 2018		December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	**679,670**	**679,670**	**298,352**	**298,352**
Financial assets at amortized cost				
Receivables from related parties	7,381,690	7,437,555	6,884,773	6,901,896
Accrued interest	1,442	1,442	3,130	3,130
Total financial assets at amortized cost	**7,383,132**	**7,438,997**	**6,887,903**	**6,905,026**
Financial assets recognized at fair value through profit or loss				
Derivative financial instruments used in hedge accounting	84,058	84,058	42,915	42,915
Total financial assets recognized at fair value through profit or loss	**84,058**	**84,058**	**42,915**	**42,915**
Total financial assets	**8,146,860**	**8,202,725**	**7,229,170**	**7,246,292**
Financial liabilities at amortized cost				
Notes and bonds payable	6,248,474	6,225,121	6,086,394	6,101,627
Commercial paper	407,774	407,774	373,632	373,632
Liabilities to banks	-	-	904	904
Payables to related parties	1,053,320	1,053,320	300,985	300,985
Accrued interest	39,025	39,025	27,654	27,654
Total financial liabilities at amortized cost	**7,748,593**	**7,725,240**	**6,789,569**	**6,804,802**
Financial liabilities at fair value				
Derivative financial instruments used in hedge accounting	27,303	27,303	58,190	58,190
Total financial liabilities at fair value	**27,303**	**27,303**	**58,190**	**58,190**
Total financial liabilities	**7,775,896**	**7,752,543**	**6,847,759**	**6,862,992**

(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, 2018				December 31, 2017			
	Total	Level 1[1]	Level 2[2]	Level 3[3]	Total	Level 1[1]	Level 2[2]	Level 3[3]
Assets								
Derivative financial instruments used in hedge accounting	**84,058**	-	84,058	-	**42,915**	-	42,915	-
Liabilities								
Derivative financial instruments used in hedge accounting	**27,303**	-	27,303	-	**58,190**	-	58,190	-

[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, 2018				December 31, 2017			
	Total	Level 1[1]	Level 2[2]	Level 3[3]	Total	Level 1[1]	Level 2[2]	Level 3[3]
Financial assets measured at amortized cost	**7,437,555**	-	7,437,555	-	**6,901,896**	-	6,901,896	-
Financial liabilities measured at amortized cost	**6,632,895**	5,550,198	1,082,697	-	**6,476,163**	4,150,240	2,325,923	-
thereof notes and bonds	**6,225,121**	5,550,198	674,923	-	**6,101,627**	4,150,240	1,951,387	-
thereof other financial liabilities	**407,774**	-	407,774	-	**374,536**	-	374,536	-

[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.

Receivables from related parties

DCFI holds receivables from related parties within a business model whose objective is to collect contractual cash flows. The fair values of 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.
- 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.

Liabilities to banks

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

Other financial liabilities

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

16. Management of financial risk and information on derivative financial instruments

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.

(a) 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 15). DCFI regularly evaluates its financial risks with due consideration of changes in key economic indicators and up-to-date market information.

(b) 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.

The maximum risk positions of financial assets, which 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	
		2018	2017
Receivables from related parties	6	7,381,690	6,884,773
Derivatives (only assets)	7	84,058	42,915
Other financial assets	7	1,442	3,130

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"), the European rating agency Scope Ratings AG ("Scope"), and the Canadian agency DBRS ("DBRS") rate DAG's commercial paper (short-term) and senior unsecured long-term debt (long-term).

DAG's ratings as of December 31, 2018 were as follows:

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

DAG's ratings as of December 31, 2017 were as follows:

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

(c) 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 Daimler North America Corporation (DNAC) 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 July 2018, DAG successfully concluded negotiations with a consortium of international banks for a new syndicated credit facility with a volume raised from Euro 9 billion to Euro 11 billion. With a term of five years, it grants DAG additional financial flexibility until 2023. The term can be extended to 2025. This facility provides funds for general corporate purposes. Prior approval from DAG is required before the Company can access this credit line. At the end of 2018 and through the issuance date of these financial statements, this facility was not utilized by the Company.

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.

(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, 2018. 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	2019	2020	2021	2022	2023
Notes and bonds – principal	6,273,025	1,518,150	2,576,425	1,028,450	1,150,000	-
Notes and bonds – interest	264,034	107,434	73,419	55,931	27,250	-
Commercial paper	408,400	408,400	-	-	-	-
Payables to related parties	1,053,320	1,053,320	-	-	-	-
Derivative financial instruments	13,576	34,100	(22,354)	6,980	(5,150)	-
Other financial liabilities	13,845	13,845	-	-	-	-
Total	**8,026,200**	**3,135,249**	**2,627,490**	**1,091,361**	**1,172,100**	**-**

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, 2017.

	Total	2018	2019	2020	2021	2022
Notes and bonds – principal	6,125,690	2,348,120	1,501,170	1,000,000	1,026,400	250,000
Notes and bonds – interest	229,671	85,251	69,455	41,097	27,443	6,425
Commercial paper	374,000	374,000	-	-	-	-
Liabilities to banks	904	904	-	-	-	-
Payables to related parties	300,985	300,985	-	-	-	-
Derivative financial instruments	18,379	14,538	-	-	3,841	-
Other financial liabilities	6,912	6,912	-	-	-	-
Total	**7,056,541**	**3,130,710**	**1,570,625**	**1,041,097**	**1,057,684**	**256,425**

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.

(d) Finance market risk

The global nature of its business exposes DCFI to significant market risks resulting from fluctuations in 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 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 is also exposed to the risk of changes in exchange rates. The risk resulting from these transactions in 2018 and 2017 was not, and is not currently, significant to DCFI.

Interest rate risk

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) to management these risk. The interest rate risk position is assessed by comparing assets and liabilities for corresponding maturities, including the impact of the relevant derivative financial instruments.

Exposure to Market Risk

As part of its risk management system, DCFI employs value at risk analyses. VAR has been used by Daimler as part of its risk management system in past years. In performing these analyses, DCFI quantifies its market risk due to changes in interest rates on a regular basis by predicting the potential loss over a target time horizon (holding period) and confidence level.

The value at risk calculations employed:

- express potential losses in fair values.
- assume a 99% confidence level and holding period of five days.

DCFI calculates the value at risk for interest rate risk according to the variance-covariance approach.

When calculating the value at risk by using the variance-covariance approach, DCFI first computes the current market value of the company's financial instruments portfolio. Then the sensitivity of the portfolio value to changes in the relevant market risk factors, such as particular interest rates of specific maturities, is quantified. Based on volatilities and correlations of these market risk factors, which are obtained from the RiskMetrics™ dataset, a statistical distribution of potential changes in the portfolio value at the end of the holding period is computed. The loss which is reached or exceeded with a probability of only 1% can be derived from this calculation and represents the value at risk.

(all amounts in thousands of Canadian dollars)

The table below shows the period-end, high, low and average value at risk figures for the 2018 and 2017 portfolios of interest-sensitive financial instruments, which include the related party receivables, notes and bonds payable, and derivatives. The amounts reflects the interest rate risk of unhedged positions of the aforementioned financial instruments. The average values have been computed on an end-of-quarter basis.

	2018				**2017**			
	Period-end	**High**	**Low**	**Average**	**Period-end**	**High**	**Low**	**Average**
Interest rate risk	1,049	4,000	1,049	2,534	2,463	4,936	2,463	3,727

Changes in the value of risk of interest rate sensitive financial instruments were primarily interest rate volatilities.

Use of derivatives

The table below shows the average rates for derivative financial instruments for the interest rate risks (according to IFRS 9):

	At December 31, 2018
	Interest rate risk
Fair value hedges	
Average variable rate - CAD	1.85%
Cash flow hedges	
Average fixed rate - CAD	2.93%

The maturities of the interest rate hedges and cross currency interest rate hedges correspond with those of the underlying transactions. The realization of the underlying transactions of the cash flow hedges is expected to correspond with the maturities of the hedging transactions, as shown in the tables below at December 31, 2018 according to IFRS 9, and at December 31, 2017 according to IAS 39:

	At December 31, 2018		
		Maturity	
	Notional Values	**≤1 year**	**>1 year**
Cross currency interest rate swaps	**1,873,005**	**468,150**	**1,404,855**
thereof cash flow hedges	1,794,575	468,150	1,326,425
thereof fair value hedges	78,430	-	78,430
Interest rate swaps	**2,800,000**	**250,000**	**2,550,000**
thereof cash flow hedges	950,000	250,000	700,000
thereof fair value hedges	1,850,000	-	1,850,000
Total nominal values of derivative financial instruments	**4,673,005**	**718,150**	**3,954,855**
thereof cash flow hedges	2,744,575	718,150	2,026,425
thereof fair value hedges	1,928,430	-	1,928,430

(all amounts in thousands of Canadian dollars)

	At December 31, 2017		
		Maturity	
	Notional Values	≤1 year	>1 year
Cross currency interest rate swaps	**2,150,703**	**1,623,117**	**527,586**
thereof cash flow hedges	1,999,092	1,547,922	451,170
thereof fair value hedges	151,610	75,195	76,415
Interest rate swaps	**1,450,000**	**-**	**1,450,000**
thereof cash flow hedges	250,000	-	250,000
thereof fair value hedges	1,200,000	-	1,200,000
Total nominal values of derivative financial instruments	**3,600,703**	**1,623,117**	**1,977,586**
thereof cash flow hedges	2,249,092	1,547,922	701,170
thereof fair value hedges	1,351,610	75,195	1,276,415

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

Interest rate risk		2018	
	Notional Values	Fair Value	
		Other Financial Assets	Other Financial Liabilities
Cross currency interest rate swaps	**1,873,005**	**74,148**	**2,964**
thereof cash flow hedges	1,794,575	74,148	-
thereof fair value hedges	78,430	-	2,964
Interest rate swaps	**2,800,000**	**9,910**	**24,339**
thereof cash flow hedges	950,000	2,287	2,758
thereof fair value hedges	1,850,000	7,623	21,581

Interest rate risk		2017	
	Notional Values	Fair Value	
		Other Financial Assets	Other Financial Liabilities
Cross currency interest rate swaps	**2,150,703**	**42,915**	**19,133**
thereof cash flow hedges	1,999,092	42,915	12,184
thereof fair value hedges	151,610	-	6,949
Interest rate swaps	**1,450,000**	**-**	**39,056**
thereof cash flow hedges	250,000	-	-
thereof fair value hedges	1,200,000	-	39,056

(all amounts in thousands of Canadian dollars)

During the period - 2018				
Changes in the fair value of the hedging instrument recognized in OCI	**Hedge ineffectiveness recognized in profit or loss (interest expense - third parties)**	**Cost of hedging recognized in OCI**	**Amount reclassified from hedging reserve to P&L (interest expense – third parties)**	**Amount reclassified from cost of hedging reserve to P&L (interest expense – third parties)**
(7,909)	**-**	**(2,134)**	**(3,810)**	**1,558**
(7,909)	-	(1,744)	(3,810)	1,558
-	-	(390)	-	-
(4,701)	**(422)**	**-**	**-**	**-**
(4,701)	-	-	-	-
-	(422)	-	-	-

During the period - 2017		
Changes in the fair value of the hedging instrument recognized in OCI	**Hedge ineffectiveness recognized in profit or loss (interest expense – third parties)**	**Amount reclassified from hedging reserve to P&L (interest expense – third parties)**
1,347	**-**	**2,325**
1,347	-	2,325
-	-	-
-	**(49)**	**-**
-	-	-
-	(49)	-

Fair value hedges (according to IFRS 9)

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

Net gain (losses) from these hedging instruments for 2018 and 2017 amounted to $13,648 and $(24,979) respectively. The offsetting changes in the value of the underlying transactions amounted to $(14,071) for 2018 and $25,028 for 2017.

The table shows the amounts of the items hedged with fair value hedges according to IFRS 9:

	2018
	Interest rate risk
Carrying amounts of the hedged items	
Notes and bonds payable - current	550,046
Notes and bonds payable - non-current	2,248,504
thereof hedge adjustments	
Notes and bonds payable - current	377
Notes and bonds payable - non-current	(24,179)
Fair value changes of the hedged items[1]	**14,071**
Accumulated amount of hedge adjustments from inactive hedges remaining in the statement of financial position – Notes and bonds payable	**9,300**

[1] Fair value changes of the hedged items used for recognizing hedge ineffectiveness

(all amounts in thousands of Canadian dollars)

DCFI ensures an economic relationship between the hedged asset and the hedging instrument by ensuring consistency of interest rates, maturity terms and notional amounts. The effectiveness of the hedge is assessed at the beginning and during the economic relationship using the hypothetical derivative method.

Source of ineffectiveness of the hedge relationship include

- Effects of the credit risk on the fair value of the derivative instrument in use which are not reflected in the change in the hedged interest rate risk.

The table below represents amounts relating to hedge ineffectiveness for items designated as fair value hedges according to IFRS 9 and IAS 39:

	2018 (IFRS 9)	2017 (IAS 39)
	Interest rate risk	**Interest rate risk**
Interest expense – third parties	(422)	(49)

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 2019 and 2021.

The table below shows the gains and losses on items designated as cash flow hedges according to IFRS 9 as well as the amounts relating to hedge ineffectiveness:

	2018
	Interest rate risk
Gains and (losses) recognized in other comprehensive income	(12,492)
Hedge ineffectiveness recognized in the statement of comprehensive income	-
Reclassification of the effective portion of the gain or (loss) on the derivatives (Interest expense – third parties)	(2,252)

The maturities of the interest rate hedges correspond with those of the underlying transactions. As of December 31, 2018, the Company expects to reclassify gains (before income taxes) of $3,385 to profit and loss in 2019.

The table below shows the reconciliation of the reserves for derivative instruments in 2018 according to IFRS 9:

	2018	
Interest Rate Risk	**Cash flow hedges**	**Cost of hedging**
Balance at January 1, 2018	**7,386**	**(1,788)**
Changes in fair values (before taxes)	(8,800)	(3,693)
Taxes on changes in fair values	2,351	980
Reclassification to profit and loss (before taxes)	(3,810)	1,558
Taxes on reclassifications to profit and loss	1,014	(414)
Balance at December 31, 2018	**(1,859)**	**(3,357)**

(all amounts in thousands of Canadian dollars)

The table below provides an overview of the reclassifications of pre-tax gains/(losses) from equity to the statement of comprehensive income in 2017 according to IAS 39:

	2017
Interest Rate Risk	**Cash flow hedges**
Balance at January 1, 2017	**4,783**
Changes in fair values (before taxes)	3,672
Taxes on changes in fair values	269
Reclassification to profit and loss (before taxes)	(2,325)
Taxes on changes in fair values and reclassifications	(623)
Balance at December 31, 2017	**5,776**

17. Related party relationships

For transactions and balances with DAG and 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 $7,984 and $7,382 for the years ended December 31, 2018 and 2017, respectively and are included in interest expense - related parties. The Company is charged for administrative overhead expenses by DNAC. These expenses were $3,987 and $3,789 for the years ended December 31, 2018 and 2017, 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.

18. 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 16.