

Mercedes-Benz Financial Services

Mercedes-Benz Financial Services Australia Pty Ltd

ABN 73 074 134 517

Consolidated Annual Financial Report

Year Ended 31 December 2023

Mercedes-Benz Insurance

Mercedes-Benz Financial

Mercedes-Benz Financial Services

Consolidated annual financial report for the year ended - 31 December 2023

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Directors' report for the year ended 31 December 2023

The directors present their report together with the consolidated financial statements of the Group comprising Mercedes-Benz Financial Services Australia Pty Ltd ("the Company") and its controlled entities, for the year ended 31 December 2023 and the auditor's report thereon.

1 Directors

Ilka Fuerstenberger (CEO)	Director since 1 January 2022
Rafael Pasquet (CFO)	Director since 1 December 2017

2 Company secretary

Lorraine M. Parrot was appointed to the position of Company Secretary on 3 March 2018. Mrs Parrot has been with the Company for 16 years and currently holds the position of General Counsel of the Company.

3 Officers who were previously partners of the audit firm

There were no officers of the Company during the financial year who were previously partners of the current audit firm, KPMG, at a time when KPMG undertook an audit of the Company.

4 Principal activities

The principal activities of the Company during the year ended 31 December 2023 have been the provision of retail and wholesale financing and insurance services for passenger motor vehicles and light commercial vehicles. There were no significant changes in the nature of the activities of the Company during the year.

5 Review and results of operations

The Company made a profit after income tax from continuing operations totalling \$32,689,000 (2022: profit after income tax from continuing operations: \$55,226,000) over the reporting period.

Overview of the Company

The Company's presence in the Australian market continued to assist Mercedes-Benz Australia/Pacific Pty Ltd in achieving higher automotive sales. Fierce competition continued to be experienced during 2023 in the automobile finance sector.

The Company provides lease asset and consumer finance primarily in relation to motor vehicles. In addition, the Company provides wholesale bailment facilities to motor vehicle dealers and acts as an insurance broker, principally in relation to motor vehicle insurance.

Financial performance for the financial year ended 31 December 2023

The year 2023 was characterized by challenging geopolitical developments and volatile markets. The Company has achieved steady sales results and delivered a 22% increase in gross revenue from continuing operations over the reporting period. This was driven partly by higher sales and pricing change from the brand partner, Mercedes-Benz Australia/Pacific Pty Ltd, steady customer demands and high interest rate environment in Australia. The finance contract receivable portfolio has increased by 2.1% at the end of 2023. However, due to higher interest rates and increasing competition in the financial services sector, it results in higher interest expenses and lower interest margin of the Company in 2023. Furthermore, higher credit risks cost has impacted 2023 EBIT by a decrease of \$12 million.

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Directors' report for the year ended 31 December 2023(continued)

6 Environmental regulation

The Company's operations are not subject to significant environmental regulation under either Commonwealth or State legislation.

7 Dividends - Mercedes-Benz Financial Services Australia Pty Ltd

Dividends paid or declared by the Company to members since the end of the previous financial year were:

	Cents per share	Total amount \$'000	Franked/unfranked	Date of payment
Interim 2023 ordinary dividend	13.04	\$15,000	Unfranked	20 September 2023
Interim 2023 ordinary dividend	19.83	\$22,800	Unfranked	27 November 2023

8 Events subsequent to reporting date

In February 2024, the Board resolves that the renewal of the ABS warehouse with Bank of America ("SAAT 2019-1") with reducing the current volume of \$1 billion to \$100 million in April 2024. The Board resolves that the Company will set up a \$1.2 billion ABS warehouse with Mizuho Bank from April 2024. A new special purpose entity, Silver Arrow Australia Trust 2024-1, will be set up for trading and investment purpose.

Other than what is noted above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

9 Likely developments

Information as to likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

10 Indemnification and insurance of officers

Since the end of the previous financial year, the Company has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an auditor of the Company. The Company has purchased a professional indemnity insurance policy to cover the Company and its officers for legal liability for acts, errors and omissions committed by the insured in their professional capacity.

On behalf of the Company, the Company's ultimate parent entity, Mercedes-Benz Group AG, incurs the expense arising in respect of the directors' and officers' liability and legal insurance contract, for current and former directors and officers, including executive officers of the Company. The insurance policy outlined does not contain details of the premiums paid in respect of individual officers of the Company. No amounts are payable by the Company in respect of this insurance.

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Directors' report for the year ended 31 December 2023(continued)

11 Directors' interest and benefits

No director of the Company has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the financial statements or the fixed salary of a full time employee of the Company or a related corporation) by reason of a contract made by a related corporation with the Director or with a firm of which he is a member, or with an entity in which he has a substantial financial interest.

12 Proceedings on behalf of the Company

There are no current proceedings on behalf of the Company.

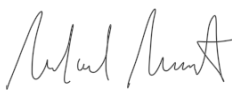
13 Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 62 and forms part of the directors' report for the financial year ended 31 December 2023.

14 Rounding off

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191* and in accordance with that, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors:



Rafael Pasquet
Director

Melbourne
30 April 2024

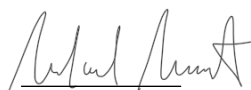
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Directors' declaration

In the opinion of the directors of Mercedes-Benz Financial Services Australia Pty Ltd ("the Company"):

- (a) the financial statements and notes set out on pages 5 to 61 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 31 December 2023 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
 - (iii) complying with International Financial Reporting Standards as described in Note 2(a);and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



Rafael Pasquet
Director

Melbourne

30 April 2024

Mercedes-Benz Financial Services

Consolidated Statement of Financial Position As at 31 December 2023

	Note	2023 \$'000	2022 \$'000
Current assets			
Cash and cash equivalents	11	49	92
Inventory	12	4,504	2,752
Trade and other receivables	13	27,082	26,934
Receivables from financial services	14	1,535,630	1,533,632
Derivative financial instruments	15	8,813	3,695
Current tax assets	19	483	5,332
Other assets	16	15,418	15,632
Total current assets		1,591,979	1,588,069
Non-current assets			
Receivables from financial services	14	2,585,711	2,478,965
Plant and equipment	17	64,955	83,738
Deferred tax assets (net)	20	12,632	4,689
Intangible assets	18	12,784	10,046
Derivative financial instruments	15	28,573	57,945
Total non-current assets		2,704,655	2,635,383
Total assets		4,296,634	4,223,452
Current liabilities			
Trade and other payables	21	102,832	99,695
Interest bearing liabilities	22	1,681,246	1,818,824
Employee entitlements	24	8,177	7,776
Total current liabilities		1,792,255	1,926,295
Non-current liabilities			
Interest bearing liabilities	22	2,230,203	2,007,167
Employee entitlements	24	762	1,126
Total non-current liabilities		2,230,965	2,008,293
Total liabilities		4,023,220	3,934,588
Net assets		273,414	288,864
Equity			
Contributed equity	33	115,000	115,000
Retained earnings		208,056	213,167
Hedge revaluation reserve	33	4,165	14,504
Merger reserve	33	(53,807)	(53,807)
Total equity		273,414	288,864

The consolidated statement of financial position is to be read in conjunction with the accompanying notes to the consolidated financial statements set out on pages 11 to 61.

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Consolidated Statement of Comprehensive Income For the year ended 31 December 2023

	Note	2023 \$'000	2022 \$'000
Revenue	5	320,177	267,337
Other revenue	5	8,035	5,090
Total revenue		328,212	272,427
Finance expenses		(290,120)	(210,981)
Finance income		156,569	141,654
Net finance cost	9	(133,551)	(69,327)
Employee expenses	6	(23,153)	(21,899)
Depreciation and amortisation expense	7	(12,970)	(12,858)
Doubtful debts provision and write offs	7	(20,998)	(8,870)
Commission expense	7	(50,188)	(48,900)
Other expenses	7	(40,486)	(31,716)
Total expenses		(281,346)	(193,570)
Profit before income tax		46,866	78,857
Income tax expense	10	(14,177)	(23,631)
Profit from continuing operations		32,689	55,226
Profit for the period		32,689	55,226
Other comprehensive income/(loss)			
Effective portion of changes in fair value of cash flow hedges	9	(14,834)	8,874
Net change in fair value of cash flow hedges transferred to profit or loss, net of tax	9	64	4,928
Income tax on other comprehensive income	9	4,431	(4,140)
Other comprehensive income for the period, net of tax		(10,339)	9,662
Total comprehensive income for the period		22,350	64,888

The consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes to the consolidated financial statements set out on pages 11 to 61.

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Consolidated Statement of Comprehensive Income For the year ended 31 December 2023

(continued)

	Note	2023 \$'000	2022 \$'000
Profit is attributable to:			
Owners of the parent		32,689	55,226
Profit for the period		32,689	55,226
 Total comprehensive income attributable to:			
Owners of the parent		22,350	64,888
Total comprehensive income for the period		22,350	64,888

The consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes to the consolidated financial statements set out on pages 11 to 61.

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Consolidated Statement of Changes in Equity For the year ended 31 December 2023

	Share capital \$'000	Retained earnings \$'000	Hedge revaluation reserve \$'000	Merger reserve \$'000	Total \$'000
Balance at 1 January 2022	115,000	272,941	4,842	(53,100)	339,683
Total comprehensive income for the period					
Profit for the period	-	55,226	-	-	55,226
Net change in fair value of cash flow hedges transferred to profit or loss, net of tax	-	-	9,662	-	9,662
Dividends to owners of the Company	-	(115,000)	-	-	(115,000)
Asset transfer to entities under common control	-	-	-	(707)	(707)
Balance at 31 December 2022	115,000	213,167	14,504	(53,807)	288,864

The consolidated statement of changes in equity is to be read in conjunction with the notes to the consolidated financial statements set out on pages 11 to 61.

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Consolidated Statement of Changes in Equity
For the year ended 31 December 2023
(continued)

	Share capital \$'000	Retained earnings \$'000	Hedge revaluation reserve \$'000	Merger reserve \$'000	Total \$'000
Balance at 1 January 2023	115,000	213,167	14,504	(53,807)	288,864
Total comprehensive income for the period					
Profit for the period	-	32,689	-	-	32,689
Net change in fair value of cash flow hedges transferred to profit or loss, net of tax	-	-	(10,339)	-	(10,339)
Transactions with owners in their capacity as owners:					
Dividends to owners of the Company	-	(37,800)	-	-	(37,800)
Balance at 31 December 2023	115,000	208,056	4,165	(53,807)	273,414

The consolidated statement of changes in equity is to be read in conjunction with the notes to the consolidated financial statements set out on pages 11 to 61.

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Consolidated Statement of Cash Flows For the year ended 31 December 2023

	Note	2023 \$'000	2022 \$'000
Cash flows from operating activities			
Cash receipts from customers		2,724,311	3,273,260
Cash paid to suppliers and employees		(2,935,584)	(3,237,263)
Interest received		463,456	319,307
Interest paid		(290,120)	(210,981)
Income taxes paid		(12,839)	(33,871)
Net cash (used in) / inflow from operating activities	25	(50,776)	110,452
Cash flows from investing activities			
Payments for plant and equipment		(79,032)	(99,551)
Proceeds from sale of plant and equipment		82,106	51,987
Proceeds from sale of bus and truck business		-	51,134
Net cash from/ (used in) investing activities		3,074	3,570
Cash flows from financing activities			
Proceeds from borrowings		30,308,703	35,372,542
Repayment of borrowings		(30,223,143)	(35,372,778)
Payments for Lease Liabilities		(101)	-
Dividends paid to company's shareholders		(37,800)	(115,000)
Net cash from/(used in) financing activities		47,659	(115,236)
Net (decrease)/increase in cash and cash equivalents		(43)	(1,214)
Cash and cash equivalents at beginning of the period		92	1,306
Cash and cash equivalents at end of period	11	49	92

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes to the consolidated financial statements set out on pages 11 to 61.

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Notes to the Consolidated Financial Statements 31 December 2023

1 Reporting Entity

Mercedes-Benz Financial Services Australia Pty Ltd (the “Company”) is a company domiciled in Australia. The address of the Company’s registered office is 44 Lexia Place, Mulgrave, Victoria. The Company is a for-profit entity and is primarily involved in the wholesale and retail financing of motor vehicles and insurance broking services.

The consolidated financial statements of Mercedes-Benz Financial Services Australia Pty Ltd as at the year ended 31 December 2023 comprise the Company and its controlled entities (together referred to as the “Group”).

2 Basis of Preparation

(a) Statement of compliance

The consolidated financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (“AASBs”) (including Australian interpretations), adopted by the Australian Accounting Standards Board (“AASB”) and the *Corporations Act 2001*.

The consolidated financial report of the Group complies with International Financial Reporting Standards (“IFRSs”) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were approved by the Board of Directors on 30 April 2024.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/ Director’s Reports) Instrument 2016/191 and in accordance with that Instrument, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(b) Basis of measurement

The consolidated financial report is prepared on the historical cost basis except for derivative financial instruments, interest bearing liabilities which are subject to fair value hedging, and share based payments, which are measured at fair value.

Going concern basis of accounting

The consolidated financial report of the Group has been prepared on a going concern basis which contemplates continuity of normal business activities, funding of operating activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The consolidated financial report of the Group has been prepared on a going concern basis, notwithstanding the net current asset deficiency as displayed in the Consolidated Statement of Financial Position, on the basis that there are sufficient available credit facilities from external parties and Mercedes-Benz International Finance B.V., a related company to ensure that adequate funds are available to meet the payments of liabilities as they fall due.

On this basis, the Directors have formed the opinion that the Group’s financial report should be prepared on a going concern basis.

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Notes to the Consolidated Financial Statements

31 December 2023

(continued)

2 Basis of Preparation (continued)

(c) Functional and presentation currency

The consolidated financial report is presented in Australian dollars which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by the Group.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 4.

(e) Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company (Mercedes-Benz Financial Services Australia Pty Ltd). Control exists when the Company and the Consolidated Entity has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Special purpose entities (SPE's) established to securitise loans and receivables of an entity are included in the consolidated group results if the SPE is deemed to be controlled in accordance with SIC -12 Consolidation - Special Purpose Entities. The Company has established Silver Arrow Australia Trust 2019-1 ("SAAT 2019-1"), Silver Arrow Australia 2019-1 ("SAA 2019-1") and Silver Arrow Australia 2020-1 ("SAA 2020-1") for trading and investment purposes. The SPEs were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and the Company does not have any direct or indirect shareholdings in these entities. As a number of criteria under SIC-12 are satisfied, including the Company having the rights to obtain the majority of benefits of the SPE's and retaining the majority of the residual or ownership risks related to the SPE's, the SPE's are deemed to be controlled and the Company is required to consolidate them under Australian Accounting Standards.

During 2019, the SAAT 2019-1 and the SAA 2019-1 were created for investment purposes as outlined above. SAAT 2019-1 remains active as at 31 December 2023. SAA 2019-1 was closed in 2023. During 2020, SAA 2020-1 was created for investment purposes as outlined above and remains active as at 31 December 2023. The controlled entities under the Company as at 31 December 2023 are SAAT 2019-1 and SAA 2020-1.

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Notes to the Consolidated Financial Statements

31 December 2023

(continued)

2 Basis of Preparation (continued)

(e) Basis of Consolidation (continued)

Subsidiaries (continued)

The financial statements of consolidated subsidiaries which are included in the consolidated financial statements are generally prepared as of the reporting date of the consolidated financial statements. The financial statements of the Company and its subsidiaries included in the consolidated financial statements are prepared using uniform recognition and measurement principles. All intercompany assets and liabilities, equity, income and expenses as well as cash flows from transactions between consolidated entities are eliminated in the course of the consolidation process.

3 Statement of material accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(b) Derivative financial instruments

The Company's ultimate parent entity Mercedes-Benz Group AG uses derivative financial instruments to hedge the Company's exposure to changes in interest rate risks arising from the funding of operational and financing activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading or speculative purposes.

If the requirements for hedge accounting set out in AASB 9 are met, Mercedes-Benz Group AG designates and documents the hedge relationship from the date a derivative contract is entered into as a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign business operation. 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.

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Notes to the Consolidated Financial Statements

31 December 2023

(continued)

3 Statement of material accounting policies (continued)

(b) Derivative financial instruments (continued)

Under AASB 9, amounts recognized in other comprehensive income as effective hedging gains or losses from hedging instruments are removed from the reserves for derivative financial instruments and directly included in the initial cost or carrying amount of the hedged item at initial recognition if a hedged forecast transaction results in the recognition of a non-financial asset or non-financial liability.

For other cash flow hedges, the accumulated hedging gains or losses from hedging instruments are reclassified from the reserves for derivative financial instruments to the Consolidated Statement of Income when the hedged item affects profit or loss. The ineffective portions of fair value changes are recognized directly in profit or loss.

For derivative instruments designated in a hedge relationship, certain components can be excluded from designation and the changes in these components' fair value are then deferred in other comprehensive income under AASB 9. This applies for example to the fair value of options or cross currency basis spread.

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

(c) Non-derivative financial instruments

Non-derivative financial instruments comprise debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(d) Hedging

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e., when interest income or expense is recognised).

For cash flow hedges, other than those covered above, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

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Notes to the Consolidated Financial Statements

31 December 2023

(continued)

3 Statement of material accounting policies (continued)

(d) Hedging (continued)

Fair value hedges

Changes in the fair value of a derivative hedging instrument designed as a fair value hedge are recognised in the profit or loss. The hedged item is adjusted to reflect changes in its fair value in respect of the risk being hedged; the gain or loss attributable to the hedged risk is recognised in profit or loss with an adjustment to the carrying amount of the hedged item.

(e) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (refer Note 3(k)).

Leased assets

Since January 1, 2019 the Company as a lessee has recognised right-of-use assets and the lease liabilities for the payment obligations entered into for generally all leases in the statement of financial position at present value. The lease liabilities include the following lease payments:

- fixed payments including defacto fixed payments, less lease incentives receivables from the lessor;
- variable lease payments linked to an index or interest rate;
- amounts expected to be payable under residual value guarantees;
- the exercise price of purchase options, when exercise is estimated to be reasonably certain; and
- contractual penalties for the termination of a lease if the lease term reflects the exercise of a termination option.

Lease payments are discounted at the rate implicit in the lease if that rate can readily be determined. Otherwise, discounting is at the incremental borrowing rate. The incremental borrowing rate, which is mainly applied at the Company, is based on risk adjusted interest rates and determined for the respective lease terms and currencies.

The Company generally also applies the option for contracts comprising lease components as well as non-lease components not to split these components.

Extension and termination options are part of a number of leases particularly of real estate. Such contract terms offer the Company the greatest possible flexibility. In determining the lease term, all facts and circumstances offering economic incentives for exercising extension options or not exercising termination options are taken into account. In determining the lease term, those options are only considered if they are reasonably certain.

Subsequent costs

The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

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Notes to the Consolidated Financial Statements

31 December 2023

(continued)

3 Statement of material accounting policies (continued)

(e) Property, plant and equipment (continued)

Depreciation

The depreciation/amortisation is booked using the straight line method. The rates used for each class of asset are as follows:

	2023	2022
Motor vehicles	10% -25%	10% - 25%
Leased building	6%	10%
Office equipment	5% - 20%	5% - 20%

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets such as software, from the time the program is completed and first put into use. Depreciation is recognised in profit and loss statement on a straight-line basis. All costs associated with the development of the asset are capitalised and amortised as per the table above.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only.

(f) Intangible assets

Software

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use as follows:

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Notes to the Consolidated Financial Statements

31 December 2023

(continued)

3 Statement of material accounting policies (continued)

(f) Intangible assets (continued)

Software (continued)

	2023	2022
Contract Management System (CMS) Software	20%	20%
Other IT software and licences (non CMS)	20%	20%

(g) Inventories

Inventories are measured at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Receivables from financial services

Receivables from financial services are stated at amortised cost using the effective interest rate method less any impairment (refer Note 3(k)). The fair value of receivables from financial services is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(i) Acquisition of assets

All assets acquired, including plant and equipment, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

Where settlement of any cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the Company if a similar borrowing was obtained from an independent financier under comparable terms and conditions.

Expenditure is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate, and the costs can be measured reliably.

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the Company in future years.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits which are carried at the face value of the amounts deposited or drawn. The carrying amounts of cash, short-term deposits and bank overdrafts approximate fair value. Interest revenue is accrued at the market or contracted rates, using the effective interest method.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

3 Statement of material accounting policies (continued)

(k) Impairment

At each reporting date, a loss allowance is recognized for financial assets, loan commitments and financial guarantees other than those to be measured at fair value through profit or loss reflecting expected losses for these instruments. The expected credit-loss approach uses three stages for allocating impairment losses:

Stage 1: expected credit losses within the next twelve months

Stage 1 includes all contracts with no significant increase in credit risk since initial recognition and usually includes new acquisitions and contracts with fewer than 31 days past due date. The portion of the lifetime expected credit losses resulting from default events possible within the next 12 months is recognized.

Stage 2: expected credit losses over the lifetime - not credit impaired

If a financial asset has a significant increase in credit risk since initial recognition but is not yet credit impaired, it is moved to stage 2 and measured at lifetime expected credit loss, which is defined as the expected credit loss that results from all possible default events over the expected life of a financial instrument.

Stage 3: expected credit losses over the lifetime - credit impaired

If a financial asset is defined as credit-impaired or in default, it is transferred to stage 3 and measured at lifetime expected credit loss. Objective evidence for a credit-impaired financial asset includes 91 days past due date and other information about significant financial difficulties of the borrower.

The determination of whether a financial asset has experienced a significant increase in credit risk is based on an assessment of the probability of default, which is made at least quarterly, incorporating external credit rating information as well as internal information on the credit quality of the financial asset. For debt instruments that are not receivables from financial services, a significant increase in credit risk is assessed mainly based on past-due information or the probability of default.

A financial asset is migrated to stage 2 if the asset's credit risk has increased significantly compared to its credit risk at initial recognition. The credit risk is assessed based on the probability of default. For trade receivables, the simplified approach is applied whereby expected credit losses for all trade receivables are allocated to stage 2 initially. Hence, no determination of significant increases in credit risk is necessary.

The Company applies the low credit risk exception to the stage allocation to quoted debt instruments with investment-grade ratings. These debt instruments are always allocated to stage 1.

In stage 1 and 2, the effective interest revenue is calculated based on gross carrying amounts. If a financial asset becomes credit impaired in stage 3, the effective interest revenue is calculated based on its net carrying amount (gross carrying amount adjusted for any loss allowance).

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

3 Statement of material accounting policies (continued)

(k) Impairment (continued)

Measurement of expected credit losses

Expected credit losses are measured in a way that reflects:

- i) the unbiased and probability-weighted amount;
- ii) the time value of money; and
- iii) reasonable and supportable information (if available without undue cost or effort) at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected credit losses are measured as the probability-weighted present value of all cash shortfalls over the expected life of each financial asset. For receivables from financial services, expected credit losses are mainly calculated with a statistical model using three major risk parameters: probability of default, loss given default and exposure at default.

The estimation of these risk parameters incorporates all available relevant information, not only historical and current loss data, but also reasonable and supportable forward-looking information reflected by the future expectation factors. This information includes macroeconomic factors (e.g., gross domestic product growth, unemployment rate) and forecasts of future economic conditions. For receivables from financial services, these forecasts are performed using a scenario analysis (basic scenario, optimistic scenario and pessimistic scenario). The impairment amount for trade receivables is predominantly determined on a collective basis.

A financial instrument is written off when there is no reasonable expectation of recovery, for example, at the end of insolvency proceedings or after a court decision of uncollectibility.

Significant modification of financial assets (e.g., with a change in the present value of the contractual cash flows of 10%) also leads to derecognition of the financial assets with a simultaneous recognition of new financial assets. This is estimated to be rare and immaterial for receivables from financial services. If the terms of a contract are renegotiated or modified and this does not result in derecognition of the contract, then the gross carrying amount of the contract has to be recalculated and a modification gain or loss has to be recognized in profit or loss.

(l) Interest bearing loans and borrowings

Interest-bearing borrowings are recognised initially at fair value less directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are stated at amortised cost using the effective interest method.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

3 Statement of material accounting policies (continued)

(m) Employee benefits

Long-term service benefits

The Company's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the wage inflation and discount rates published by the Department of Treasury and Finance Victoria at the balance sheet date which have maturity dates approximating to the terms of the Company's obligations. Related on-costs have also been included in the liability (refer Note 24).

Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Company as the benefits are taken by the employees.

Bonus plan

The Company operates an employee bonus plan which is linked to both employee and Company performance. The provision for bonuses is calculated at nominal amounts based on expected bonus payments.

Employee loans

Employees are entitled to purchase financial products similar to those offered by the Company to the public at lower interest rates where the lower interest rates can be offered to the members of the public. The rates offered to employees exceed the cost of funds to the Company.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred (refer Note 24).

Share-based payment transactions

In 2005 Mercedes-Benz Group AG adopted the "Performance Phantom Share Plan" under which virtual shares (phantom shares) are granted to eligible employees entitling them to receive cash paid out after four years of service. The Company recognises the value of phantom shares issued in accrued liabilities. The quoted price represents the fair value of each phantom share because the payment per vested share depends on the quoted price of one ordinary share. The proportionate compensation expense for 2023 is determined based on the quoted price of Mercedes-Benz Group AG ordinary shares as well as the estimated target achievement grades as of 31 December 2023 (refer Notes 6 and 24).

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

3 Statement of material accounting policies (continued)

(n) Trade and other payables

Trade and other payables are stated at cost.

(o) Deferred income

Deferred income is recognised in the statement of financial position when income is received in earlier periods than that in which it is earned. Principally the Company recognised deferred income in the consolidated statement of financial position in relation to interest rate subsidies received from related parties in connection with various finance campaigns. Deferred income is recognised in the income statement according to the effective interest method.

(p) Revenue recognition

Finance contracts

Interest income arising from finance leases and hire purchase contracts is accounted for over the term of the contract using an effective interest method in accordance with Accounting Standard AASB 16 "Leases". Unearned income is that portion of charges written into hire purchase agreements, chattel mortgage agreements and lease agreements, which will be earned in the future. Initial direct costs arising from finance contracts have reduced the unearned income remaining to be recognised in future years and will be amortised over the lease term.

Operating leases

Rental revenue arising from operating lease contracts is brought to account in the period in which it is earned on a straight line basis over the lease term. Motor vehicles subject to operating leases where the Company acts as lessor have been accounted for as non-current assets depreciated by periodic charges to the income statement.

Sale of non-current assets

The net gain / (loss) of non-current asset sales are included as revenue / expense at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is gained. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Commissions

When the Company acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission received by the Company.

(q) Expenses

Finance Income and Expense

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested and gains and losses on hedging instruments that are recognised in the income statement (refer Note 9).

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

3 Statement of material accounting policies (continued)

(r) Taxation

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance date. Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes linked to the same tax authority on the same taxable entity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax Consolidation

The Company is an entity in a multiple entry consolidated (MEC) group, whereby the group of Australian entities (being Mercedes-Benz Group Australia/Pacific Pty Ltd, Mercedes-Benz Australia/Pacific Pty Ltd, Mercedes-Benz Vans Australia/Pacific Pty Ltd, Mercedes-Benz Mobility Australia Pty Ltd, and Mercedes-Benz Financial Services Australia Pty Ltd) were all wholly foreign-owned by a common non-resident company, but did not have a common Australian resident head company. As a result, these entities formed part of MEC group that were consolidated and taxed as a single entity for Australian tax purposes. The provisional head entity of the Australian tax-consolidated group is Mercedes-Benz Group Australia/Pacific Pty Ltd. The implementation date of the tax consolidation system for the tax-consolidated group was 1 January 2003.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Company's balance sheet and their tax values applying under tax consolidation.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

3 Statement of material accounting policies (continued)

(r) Taxation (continued)

Tax Consolidation (continued)

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the Company are assumed by the head entity of the tax-consolidated group and are recognised as amounts payable (receivable) to other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised. The Company assesses the recovery of its unused tax losses and tax credits only in the period in which they arise and before assumption by the head entity, in accordance with AASB 112 applied in the context of the tax-consolidated group.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Nature of tax funding and sharing arrangements

The Company, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangements require payments to / from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the Company recognising an inter-entity payable (receivable) equal in amount to the tax liability (asset) assumed. The inter-entity payable (receivable) is at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The Company, in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(s) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

3 Statement of material accounting policies (continued)

(t) Repossessed assets

Reposessed assets are those assets acquired through actual foreclosure or in full or partial satisfaction of leases or loans. When such assets are acquired, income on the loan or lease ceases to be recognised in the income statement as reasonable doubt exists as to the collectability of interest and principal. The carrying amount of reposessed assets approximates net realisable value. Repossessed assets are included as inventory in the consolidated statement of financial position.

(u) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

4 Accounting estimates and judgements

In the Consolidated Financial Statements, to a certain degree, estimates and management judgements have to be made which can affect the amounts and reporting of assets and liabilities, the reporting of contingent assets and liabilities on the balance sheet date, and the amounts of income and expense reported for the period.

Key sources of estimation and uncertainty

The doubtful debts provision as detailed above in Note 3(k) involves a level of management judgement. Many factors are taken into consideration in this context including historical loss experience, the size and composition of certain portfolios, the current fair values and adequacy of collaterals, current economic events, macroeconomic factors, and forecasts of future economic conditions and conditions. These forecasts are performed using a scenario analysis (basic scenario, optimistic scenario and pessimistic scenario).

The doubtful debts provision is calculated for the retail portfolio using current delinquencies, historical delinquency migration ratios ("HDMR") as well as historical loss data. Corporate Fleet and Dealer pool provisions are calculated based on customer ratings and associated default probabilities as well as potential loss severities. Specific provisions for impaired corporate accounts are determined using remarketing estimates of current assets, expert and management judgement on the likelihood of recovery and liquidation of assets as at 31 December 2023.

Further external information, e.g. in connection with the Covid-19 pandemic, which cannot be depicted in the scenarios, is - as far as necessary - included in the assessment through subsequent adjustments. Changes to the estimation and assessment of these factors influence the allowance for credit losses with a resulting impact on the Company's net profit.

Other factors that have the most significant effect on the amount recognised in the financial statements are also described in the following notes:

- Notes 15, 21, 22 and 23 - the best evidence of fair value is a quoted price from an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs. Key judgements include:
 - the likelihood and expected timing of future cash flows on the instrument.
 - selecting an appropriate discount rate for the instrument.
 - judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective.

When applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments are based on some market observable inputs even when unobservable inputs are significant.

- Note 20 - Deferred tax assets / deferred tax liabilities: Relies on assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

5 Revenue

	2023 \$'000	2022 \$'000
<i>Interest:</i>		
- Related parties	677	947
- Other parties	281,956	230,434
<i>Operating lease income:</i>		
- Related parties	4,293	4,528
- Other parties	8,940	9,134
Insurance brokerage income	12,430	10,956
Other contract and fee income	11,881	11,338
Total revenue from continuing operations	320,177	267,337
<i>Prior year recoveries</i>		
- Other parties	5,272	3,380
<i>Revenue from other ordinary activities</i>		
- Related parties	1,261	1,240
- Other parties	1,502	470
Total revenue from other ordinary activities	8,035	5,090
Total revenue	328,212	272,427

6 Employee expenses

	2023 \$'000	2022 \$'000
Wages and salaries	19,139	18,269
Compulsory superannuation contributions	1,872	1,548
Cash settled share based payments transactions	310	239
Increase in liability for annual leave	1,241	1,053
Increase in liability for long service leave	535	560
Other employee expenses	56	230
	23,153	21,899

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

7 Expenses

	2023 \$'000	2022 \$'000
Depreciation of plant and equipment	12,970	12,858
Net expense for movements to provision for bad debts	7,446	491
Bad debts written off	13,552	8,379
Commission expense	50,188	48,900
Net loss/ (gain) on assets disposed	1,172	(178)
General administration costs	29,169	25,306
Cost of sales - lease maintenance expenditure	1,693	1,279
Other	8,452	5,309
	124,642	102,344

8 Auditor's remuneration

	2023 \$	2022 \$
Audit services		
Auditors of the Company - KPMG Australia		
- Audit of financial statements	228,073	219,887
- Other regulatory audit service - Australian Financial Services License	11,410	11,000
- Other regulatory audit service - APRA return	23,856	23,000
	263,339	253,887
Other assurance services		
Auditors of the Company - KPMG Australia		
Other assurance services	65,171	25,875
	65,171	25,875

Audit services relate to the audit of the consolidated financial statements and the year-end financial statements.

Other services in 2023 relate to agreed upon procedures performed in connection with ABS project and ICS review (2022: agreed upon procedures in connection with ABS project).

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

9 Net finance costs

	2023 \$'000	2022 \$'000
<i>Recognised in profit or loss</i>		
Finance income		
Interest income from:		
- Related parties	131,039	84,391
- Other parties	25,530	57,263
Total finance income	<u>156,569</u>	<u>141,654</u>
Finance expenses		
Interest expense:		
- Related parties	(161,560)	(143,193)
- Other parties	(124,462)	(60,512)
Guarantee Fees	(2,766)	(3,169)
Net fair value (loss) on derivative financial instruments	(1,332)	(4,107)
Total finance expenses	<u>(290,120)</u>	<u>(210,981)</u>
Net finance costs	<u>(133,551)</u>	<u>(69,327)</u>
Recognised in other comprehensive income		
Effective portion of changes in fair value of cash flow hedges	(14,834)	8,874
Net change in fair value of cash flow hedges transferred to profit or loss, net of tax	64	4,928
Income tax on other comprehensive income	4,431	(4,140)
Finance expenses recognised in other comprehensive income, net of tax	<u>(10,339)</u>	<u>9,662</u>

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

10 Income tax (expense)/benefit

	2023 \$'000	2022 \$'000
Current tax (expense)		
Current year	(17,469)	(24,044)
Adjustments for prior years	(192)	(98)
	<u>(17,661)</u>	<u>(24,142)</u>
Deferred tax (expense)		
Origination and reversal of temporary differences	3,484	511
Total income tax (expense) in income statement	<u>(14,177)</u>	<u>(23,631)</u>
Numerical reconciliation between tax (expense) and pre-tax net profit		
Profit before tax	46,865	78,857
Profit from continuing operations before income tax	<u>46,865</u>	<u>78,857</u>
Income tax expense using the Company's domestic tax rate of 30% (2022 - 30%)	(14,060)	(23,657)
Increase in income tax expense due to:		
- Non-deductible expenses	(5)	(14)
- Prior year income tax expense adjustment	(192)	(98)
Decrease in income tax expense due to:		
- Prior year deferred tax adjustment	80	138
Income tax (expense) on pre-tax net profit	<u>(14,177)</u>	<u>(23,631)</u>
Deferred tax recognised in other comprehensive income		
Relating to change in fair value of derivatives	4,431	(4,140)
	<u>4,431</u>	<u>(4,140)</u>

*Comparative information has been restated due to a discontinued operation (note 30).

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

11 Cash and cash equivalents

	Note	2023 \$'000	2022 \$'000
Cash and cash equivalents		49	92
Cash and cash equivalents		49	92

12 Inventory

	2023 \$'000	2022 \$'000
Finished goods	4,504	2,752
	4,504	2,752

Finished goods comprise returned lease vehicles and vehicles repossessed. The carrying amount of inventories recognised during the period by taking possession of collateral held as security amounted to \$ 4,254,555 (2022: \$1,417,665).

13 Trade and other receivables

	Note	2023 \$'000	2022 \$'000
Receivables due from related entities	29	19,077	12,415
Trade and other receivables		8,005	14,519
		27,082	26,934

Trade receivables primarily consist of customer premiums due from the activities of the insurance business, and lease receivables due from customers on operating lease contracts, net of provision for repossessed vehicles.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

14 Receivables from financial services

	Note	2023 \$'000	2022 \$'000
Current			
Receivables from financial services - Retail		1,173,515	1,143,443
Unearned income		(130,915)	(109,724)
Gross carrying amount		1,042,600	1,033,719
Allowance for doubtful debts		(9,070)	(8,496)
Net carrying amount		1,033,530	1,025,223
Receivables from financial services - Wholesale			
- Related parties	29	14	105
- Other parties		502,585	509,059
Gross carrying amount		502,599	509,164
Allowance for doubtful debts		(499)	(755)
Net carrying amount		502,100	508,409
Total current receivables from financial services		1,535,630	1,533,632
Non-current			
Receivables from financial services - Retail		2,934,195	2,757,316
Unearned income		(327,691)	(265,042)
Gross carrying amount		2,606,504	2,492,274
Allowance for doubtful debts		(20,793)	(13,309)
Net carrying amount		2,585,711	2,478,965
Total receivables from financial services		4,121,341	4,012,597

Retail receivables include loans and finance leases to end users of the financed asset. The consolidated weighted average effective interest rate on retail receivables at 31 December 2023 is 7.08% (2022: 5.89%).

Wholesale receivables primarily represent vehicles on floor plan arrangements. Included also are direct loans to dealerships for other assets such as dealer showroom refurbishments.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

14 Receivables from financial services (continued)

Loss allowance

The development of loss allowances for receivables from financial services due to expected credit losses at 31 December 2023 under AASB 9 is shown in the table below.

Loss allowance due to expected credit losses AASB 9

	12-month expected credit loss	not credit impaired	Lifetime expected credit loss impaired	Total
	(Stage 1)	(Stage 2)	(Stage 3)	
	\$'000	\$'000	\$'000	\$'000
Balance at 1 January according to AASB 9	(11,945)	(3,461)	(7,155)	(22,561)
Additions	(4,501)	(1,772)	(1,674)	(7,947)
Change in remeasurement	(1,639)	(3,386)	(5,936)	(10,961)
Utilization	115	523	1,596	2,234
Reversals	4,694	1,360	2,819	8,873
Transfer to Stage 1	(804)	692	112	-
Transfer to Stage 2	610	(846)	237	1
Transfer to Stage 3	76	369	(446)	(1)
Balance as 31 December according to AASB 9	(13,394)	(6,521)	(10,447)	(30,362)

Changes in the allowance for doubtful debts for receivables from financial services at 31 December 2022 under AASB 9 are shown as follows.

	\$'000	\$'000	\$'000	\$'000
Balance at 1 January according to AASB 9	(10,629)	(3,070)	(8,076)	(21,775)
Additions	(4,773)	(830)	(1,810)	(7,413)
Change in remeasurement	415	(1,896)	(2,625)	(4,106)
Utilization	77	145	1,617	1,839
Reversals	4,591	1,002	3,301	8,894
Transfer to Stage 1	(1,813)	1,579	234	-
Transfer to Stage 2	149	(505)	356	-
Transfer to Stage 3	38	114	(152)	-
Balance as 31 December according to AASB 9	(11,945)	(3,461)	(7,155)	(22,561)

The Company's exposure to credit risk is disclosed in Note 23.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

14 Receivables from financial services (continued)

Finance lease receivables (included in Receivables from financial services - Retail)

Maturities of the future contractual lease payments and the development of lease payments to the carrying amounts of receivables from finance lease contracts at reporting date, comprise the following:

	2023	2022
	\$'000	\$'000
Contractual future lease payment	61,314	29,219
Thereof due:		
- Within one year	32,888	17,573
- Between one and two years	19,574	6,454
- Between two and three years	4,223	2,513
- Between three and four years	4,118	1,834
- Between four and five years	509	827
- Later than five years	2	18
Unguaranteed residual values	-	-
Gross investment	61,314	29,219
Gross investment	61,314	29,219
Unearned finance lease	(6,377)	(2,335)
Gross carrying amount	54,937	26,884
Gross carrying amount	54,937	26,884
Loss allowance	(151)	(125)
Net carrying amount (included in Receivable from financial services - Retail)	54,786	26,759

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

15 Derivative financial instruments

	2023	2022
	\$'000	\$'000
Current assets		
Interest rate swaps - cash flow hedge	8,489	3,459
Foreign currency option contracts - held for trading	324	236
	8,813	3,695
Non-current assets		
Interest rate swaps - cash flow hedge	7,517	17,910
Interest rate swaps contracts - no hedge accounting	21,056	40,035
	28,573	57,945
	37,386	61,640

The Company's exposure to credit, liquidity and market risks and a sensitivity analysis for financial assets and liabilities is disclosed in Note 23.

16 Other assets

	2023	2022
	\$'000	\$'000
Prepayments	1,245	1,448
General Reserve	14,173	14,184
	15,418	15,632

General Reserve consists primarily of funds held in compliance of the SAAT 2019-1 Trust Supplement and SAA 2020-1 Trust Supplement as at 31 December 2023.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

17 Plant and equipment

2023
\$'000 **2022**
\$'000

Motor vehicles subject to operating lease

Cost

Balance at beginning of year	108,317	70,083
Additions	63,233	94,694
Disposals	(93,239)	(56,460)
Balance at end of year	78,311	108,317

Accumulated depreciation

Balance at beginning of year	(25,103)	(18,787)
Depreciation expense	(10,278)	(10,789)
Disposals	11,366	4,473
Balance at end of year	(24,015)	(25,103)

Carrying amount at beginning of year	83,214	51,296
Carrying amount at end of year	54,296	83,214

Office equipment

Cost

Balance at beginning of year	3,269	3,105
Additions	23	164
Disposals	(2,954)	-
Balance at end of year	338	3,269

Accumulated depreciation

Balance at beginning of year	(2,745)	(2,639)
Depreciation expense	(120)	(106)
Disposals	2,721	-
Balance at end of year	(144)	(2,745)

Carrying amount at beginning of year	524	466
Carrying amount at end of year	194	524

In July 2023, the Company entered a long term office rental lease agreement with Mercedes-Benz Australia / Pacific Pty Ltd. The Company recognised the right-of-use assets and lease liabilities for this lease in accordance with AASB 16 in FY2023.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

17 Plant and equipment (continued)

	2023 \$'000	2022 \$'000
Right-of-use assets - leased office		
Cost		
Balance at beginning of year	5,483	3,781
Additions	10,816	-
Balance at end of year	10,816	-
Accumulated depreciation		
Balance at beginning of year	-	-
Depreciation expense	(351)	-
Balance at end of year	(351)	-
Carrying amount at beginning of year	-	-
Carry amount at end of year	10,465	-
Total carrying amount at beginning of year	83,738	51,762
Total carrying amount at end of year	64,955	83,738

18 Intangible assets

	2023 \$'000	2022 \$'000
Software		
Cost		
Balance at beginning of year	21,338	18,717
Additions	3,215	2,621
Disposals	-	-
Balance at end of year	24,553	21,338
Accumulated depreciation		
Balance at beginning of year	(15,073)	(13,110)
Depreciation expense	(2,222)	(1,963)
Disposals	-	-
Balance at end of year	(17,295)	(15,073)
Software - Projects in Progress balance at beginning of year	3,781	1,709
Software - Projects in Progress movement	1,702	2,072
Balance at end of year	5,483	3,781

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

18 Intangible assets (continued)

	2023 \$'000	2022 \$'000
Other intangible assets		
Other intangible assets balance at beginning of year	-	-
Other intangible assets movement	43	-
Balance at end of year	43	-
Carrying amount at beginning of year	10,046	7,316
Carrying amount at end of year	12,784	10,046

The Company had intangible assets subject to amortisation which comprise software developed or obtained to facilitate certain transactions between the Company and its dealer network.

19 Current tax assets and liabilities

	2023 \$'000	2022 \$'000
Income tax (receivable)/payable attributable to:		
Related party	17,470	24,044
Less instalments paid	(17,953)	(29,376)
Net current tax (assets)/liabilities	(483)	(5,332)

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

20 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets of the Company are attributable to the following:

	2023	2022
	\$'000	\$'000
Risk provisions	9,109	6,768
Other provisions	81	6
Derivatives	10,828	20,106
Employee benefits	2,681	2,683
Other / Accruals	4,939	3,886
Total deferred tax assets	27,638	33,449

Deferred tax liabilities of the Company are attributable to the following:

	2023	2022
	\$'000	\$'000
Derivatives	(13,022)	(26,710)
Property, Plant & Equipment	(1,466)	(1,874)
Capitalised Commissions	(518)	(176)
Total deferred tax liabilities	(15,006)	(28,760)

In accordance with the tax consolidation legislation, Mercedes-Benz Group Australia/Pacific Pty Ltd (the head entity) has assumed the current tax liability or asset initially recognised by the Company which is a member of the tax consolidated group.

Under the tax funding arrangement the Company and the head entity recognise an inter-entity payable or receivable equal in amount to the current tax liability or asset assumed. The Company continues to recognise tax expense or income even though it has derecognised its current tax liability or asset.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

20 Deferred tax assets and liabilities (continued)

Recognised deferred tax assets and liabilities (continued)

Movement in temporary differences of the Company during the year comprises the following:

	Balance at 1 January 2022 \$'000	Recognised in income \$'000	Recognised in equity \$'000	Project Focus Asset Transfer \$'000	Balance at 31 December 2022 \$'000
Risk Provisions	6,533	3,868	-	(3,633)	6,768
Other Provisions	31	(25)	-	-	6
Derivatives	(2,930)	(1,598)	(2,076)	-	(6,604)
Employee Benefit Provisions	2,492	594	-	(403)	2,683
Other / Accruals	4,610	(724)	-	-	3,886
Property, Plant & Equipment	(2,114)	(4,615)	-	4,855	(1,874)
Capitalised Commissions	(314)	(1,990)	-	2,128	(176)
	8,308	(4,490)	(2,076)	2,947	4,689

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

20 Deferred tax assets and liabilities (continued)

Recognised deferred tax assets and liabilities (continued)

Movement in temporary differences of the Company during the year comprises the following: (continued)

	Balance at 1 January 2023 \$'000	Recognised in income \$'000	Recognised in equity \$'000	Balance at 31 December 2023 \$'000
Risk Provisions	6,768	2,341	-	9,109
Other Provisions	6	75	-	81
Derivatives	(6,604)	(21)	4,431	(2,194)
Employee Benefit Provisions	2,683	(2)	-	2,681
Other / Accruals	3,886	1,053	-	4,939
Property, Plant & Equipment	(1,874)	408	-	(1,466)
Capitalised Commissions	(176)	(342)	-	(518)
	<u>4,689</u>	<u>3,512</u>	<u>4,431</u>	<u>12,632</u>

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

21 Trade and other payables

	Note	2023 \$'000	2022 \$'000
Trade payables			
Trade creditors		10,724	10,184
Other creditors & accruals		10,140	8,092
Amounts due to related parties:			
- Interest payable		29,515	10,177
- Purchase of vehicles used in wholesale financing		30,661	24,929
		<u>81,040</u>	<u>53,382</u>
Other payables			
Interest rate swap derivatives used in hedging:			
- Related parties		21,792	46,313
		<u>21,792</u>	<u>46,313</u>
Total Trade payables		<u>102,832</u>	<u>99,695</u>

22 Interest bearing liabilities

	Note	2023 \$'000	2022 \$'000
Current			
Loans from external parties		580,022	1,214,885
Loans from related parties	29	1,101,031	603,939
Lease liabilities		193	-
		<u>1,681,246</u>	<u>1,818,824</u>
Non-current			
Loans from external parties		1,459,045	1,278,965
Loans from related parties	29	760,635	728,202
Lease liabilities		10,523	-
		<u>2,230,203</u>	<u>2,007,167</u>

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

22 Interest bearing liabilities (continued)

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to liquidity and interest rate risk, and sensitivity analysis, please refer to Note 23.

This note also includes the adjustment to the carrying value on the hedged item designated as a fair value hedge.

	Note	2023 \$'000	2022 \$'000
Total facilities available			
Bank overdraft (unsecured)		-	-
Loans from external parties		3,138,075	2,874,109
Loans from related entities		1,986,960	1,666,018
		<u>5,125,034</u>	<u>4,540,127</u>
Facilities utilised at balance date			
Bank loans (unsecured)		-	-
Loans from external parties		2,039,067	2,493,850
Loans from related parties	23	1,861,666	1,332,141
		<u>3,900,733</u>	<u>3,825,991</u>
Facilities not utilised at balance date (uncommitted)			
Bank overdraft (unsecured)		-	-
Loans from external parties		1,099,008	380,259
Loans from related parties		125,294	333,877
		<u>1,224,302</u>	<u>714,136</u>

Bank overdraft

For the purposes of the financial statements, overdrawn individual bank balances are separately disclosed within interest bearing liabilities. The company did not have this overdraft facility as at the end of the financial year 2023 and 2022.

Loans from related parties

Mercedes-Benz Australia/Pacific Pty Ltd and Mercedes-Benz International Finance B.V. ("MBIF"), both related parties, facilitate borrowings for the Group. MBIF is incorporated in Netherlands, which is wholly owned by Mercedes-Benz Group AG. The related parties contract with the relevant lenders or investors, and on lend requisite funding to the Company via arms-length transactions. Funding sources include bank loans, commercial paper, unsecured notes, secured notes and loans from the ultimate parent entity.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

22 Interest bearing liabilities (continued)

Loans from external parties

Loans from external parties includes a utilised amount of \$1,500 million (nominal value) Class A Note for the trusts held by third party investors for the asset-backed security ("ABS") projects (2022: \$1,500 million).

In the current and previous reporting years, the total facilities available include uncommitted external facilities, loans from the ultimate parent entity which are currently outstanding at balance date, and those secured and unsecured notes, which are currently on issue. Facilities not utilised at balance date represent the unused uncommitted funding facilities. These unused facilities are accessible by either Mercedes-Benz Australia/Pacific Pty Ltd, Mercedes-Benz Group Australia/Pacific Pty Ltd or Mercedes-Benz Financial Services Australia Pty Ltd.

Terms and repayment schedule

\$'000	Currency	Nominal interest rate %	Year of Maturity	2023		2022	
				Face value	Carrying amount	Face value	Carrying amount
Secured notes issued	AUD	BBSW + 0.75% to 0.81 to 3-month	2024 - 2028	1,500,000	1,044,675	1,500,000	1,150,709
Unsecured bank loan	AUD	BBSY+65bps	2023	-	-	1,108,000	1,108,000
Unsecured bank loan	AUD	4.83 - 5.34	2024	183,000	183,000	130,000	130,000
Unsecured bank loan	AUD	2.81 - 5.84	2025	575,000	575,000	100,000	100,000
Unsecured bank loan	AUD	5.34 - 5.98	2026	230,000	230,000	-	-
Loans from associate	AUD	0.60 - 4.18	2023	-	-	609,436	609,080
Loans from associate	AUD	0.75 - 4.84	2024	782,904	781,841	320,000	319,565
Loans from associate	AUD	4.81 - 5.81	2025	80,000	80,000	-	-
Loans from associate	AUD	4.50 - 5.81	2026	585,000	583,177	-	-
		-0.09 to 3-month					
Loans from associate	EUR	EURIBOR rate	2024	325,260	325,582	313,860	314,704
Loans from associate	EUR	0.12	2025	97,578	97,458	94,158	93,933
Lease liabilities	AUD	4.94	2041	17,328	10,716	-	-
Total interest bearing liabilities				4,375,349	3,911,449	4,175,454	3,825,991

23 Financial instruments

Exposure to credit, liquidity and market risks arise in the normal course of the Company's business.

Interest Rate Risk

Interest rate risk for the Company refers to the occurrence of a mismatch in the characteristics of assets and their respective liability funding.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

23 Financial instruments (continued)

Interest Rate Risk (continued)

An asset-liability committee at Mercedes-Benz Group AG, the ultimate parent entity, which consists of members of the business segment, the Corporate Treasury department and the Corporate Controlling department, actively manage the risk by quarterly setting interest rate exposure targets for the local companies. As a separate function, the Global Portfolio Management department at Mercedes-Benz Mobility AG monitors on a monthly basis whether the interest rate risk position at month end is in line with the targets to be achieved.

Interest rate exposure is assessed by comparing assets and liabilities for corresponding maturities based on interest rate characteristics, including the impact of derivative financial instruments. In order to achieve the interest rate exposure targets, the Company uses derivative financial instruments. The only derivative financial instrument currently in use is interest rate swaps.

Interest rate swaps

Interest rate swaps allow the Company to swap floating rate borrowings into fixed rate as well as fixed rate borrowings into floating rates and match differing interest rate characteristics of assets and liabilities where required. Maturities of swap contracts do not exceed five years.

Each contract involves quarterly payment or receipt of a net amount of interest. At 31 December 2023 the fixed rates varied between 0.10% and 4.60% (2022: 0.03% and 4.60%). Floating rates were at bank bill swap rates plus the Company's credit margin. The weighted average effective floating interest rate at 31 December 2023 was 4.94% (2022: 3.31%).

Sensitivity analysis

As part of its risk management control systems, Mercedes-Benz Group AG (the ultimate parent entity) employs value-at-risk analyses as recommended by the Bank for International Settlements. In performing these analyses the market risk exposure to changes in foreign currency exchange rates, interest rates and equity prices is quantified on a continuous basis by predicting the maximum loss over a target time horizon (holding period) and confidence level.

The value-at-risk calculation is performed by Mercedes-Benz Group AG for the Company. The only material market risk concerning the Company is interest rate risk.

When the value-at-risk of the Company's portfolio of financial instruments is calculated, first the current fair value of these financial instruments is computed. Then the sensitivity of the Company's portfolio value to changes in relevant market risk factors is quantified. Based on expected volatilities and correlations of these market risk factors which are obtained from the RiskMetrics™ dataset, potential changes of the portfolio value are computed by applying the variance-covariance approach. The variance-covariance approach is a statistical method used to quantify the total impact of all relevant major risk factors on the portfolio's present value. Through these calculations and by assuming a 99% confidence level and a holding period of five days, the Company's value-at-risk is obtained. The 99% confidence level and the five day holding period indicate that there is only a 1% statistical probability that the value-at-risk will be exceeded by losses at the end of the five day holding period.

The following table shows the period-end, high, low and average value-at-risk figures for the 2023 and 2022 portfolio of interest rate sensitive financial instruments. The average exposure has been computed on an end of quarter basis:

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Notes to the Consolidated Financial Statements

31 December 2023

(continued)

23 Financial instruments (continued)

Interest Rate Risk (continued)

Sensitivity analysis (continued)

	Period-end \$'000	High \$'000	Low \$'000	Average \$'000
Interest rate risk				
2023	79,519	79,519	40,319	55,592
2022	64,972	85,905	30,454	66,213

The following table provides details of the (gain) / loss on hedge accounting relationships recognised in finance costs:

	2023 \$'000	2022 \$'000
Loss / (gain) on fair value hedges (i)	-	-
Ineffective portion of cash flow hedges (ii)	(64)	(4,928)
	<u>(64)</u>	<u>(4,928)</u>

- (i) The re-measurement of the borrowings in the fair values resulted in nil gain or loss before tax in reporting period (2022: nil). The change in fair value of the associated derivative financial instruments resulted in nil gain or loss before tax in reporting period (2022: nil).
- (ii) The ineffective portion in cash flow hedges has been disclosed in OCI for gain of \$63,957 (2022: gain of \$4,927,590).

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	2023 \$'000	2022 \$'000
Fixed rate instruments		
Financial assets	3,619,565	3,504,424
Financial liabilities	(2,312,695)	(1,807,043)
	<u>1,306,870</u>	<u>1,697,381</u>
Variable rate instruments		
Financial assets	502,149	508,501
Financial liabilities	(1,588,039)	(2,018,948)
	<u>(1,085,890)</u>	<u>(1,510,447)</u>

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

23 Financial instruments (continued)

Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

Receivables from financial services

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. In addition, Mercedes-Benz Mobility AG has implemented global guidelines and rules as a basis for efficient risk management. In particular, these guidelines deal with concentration risks, requests for collateral as well as the treatment of unsecured credits and non-performing loans. The risk management principles contain standards for identifying, measuring, analysing and monitoring the credit risks and are accompanied by a set of limits for operating entities and product types.

Credit risk is mitigated by assessing individually each customer's credit standing and constructing the terms of the financial arrangement on the basis of the customer's risk profile; higher risk customers requiring greater cash deposits for example. The Company takes collateral over each transaction, with the exception of shortfall agreements. Principally the collateral is the financed vehicle. Concentrations of credit risk is minimised by undertaking transactions with a large number of customers. Transactions are undertaken with Australian domiciled customers only.

The maximum exposure to credit risk at the reporting date is the carrying amount, net of any provision of doubtful debts.

The Company's most significant external retail customer accounts for \$36.8 million of the receivables from financial services before allowance for doubtful debts (2022: \$31.3 million).

The Company's most significant external wholesale customer accounts for \$114.1 million of the receivables from financial services carrying amount before allowance for doubtful debts (2022: \$107.8 million).

Trade receivables

Trade receivables primarily consist of insurance premiums receivable and operating lease payments due. The credit risk encompasses the default risk of customers. The Company minimises the credit risk of trade receivables by limiting the payment terms of the agreements making trade receivables either due immediately, or within seven days. The Company does not impair trade receivables.

The credit risk from the activities of the insurance business is mitigated as the underwriter to the insurance agreement is only paid once the trade receivable is settled by the customer. The financial liability to the underwriter is included in trade and other payables. The carrying amounts are not suitable to be offset and presented on a net basis in the balance sheets, as the Company is exposed briefly to credit risk as the settlements of the financial asset and financial liability do not occur simultaneously. However, as the exposure is brief, the Company does not believe it necessary to provide an allowance.

The Company holds legal title over vehicles on operating lease. Additionally, based on historical credit losses in relation to the operating lease product, the Company believes credit risk to be immaterial and does not provide an allowance.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

23 Financial instruments (continued)

Credit risk (continued)

Trade receivables (continued)

The maximum exposure to credit risk at the reporting date is the carrying amount.

Other financial assets

In 2023 other financial assets include the positive fair value of interest rate swap derivatives used for hedging. The maximum exposure to credit risk at the reporting date is the carrying amount.

Cash and cash equivalents

Cash and cash equivalents consists only of cash at bank. Where the Company expects to hold a surplus of funds over and above working capital and operating cash requirements, an investment is made in an overnight related party facility. Credit risk relates to the risk that the bank fails to fulfil its obligation.

The maximum exposure to credit risk at the reporting date is the carrying amount.

Derivative financial instruments

The Company, in accordance with its treasury policy, use derivatives only for the purpose of risk management, and not for speculation. Credit risk is managed through diversification of counterparties (principally large banks) by a limit system. The limit is based on the review of the counterparty's financial strength and concurrently manages concentration risks.

In 2008, the Company began entering interest rate swaps with a related party. The related party has a mirror match of the swap with an external counterparty in their balance sheets. Accordingly, only the external positions are considered in the limit system.

Maximum credit exposure

The maximum exposure to credit risk is the carrying amount of those derivatives classified as financial assets.

The Company's maximum exposure to credit risk at the reporting date is set out below:

	2023 \$'000	2022 \$'000
Receivables from financial services	4,121,341	4,012,597
Trade receivables	27,082	26,934
Cash and cash equivalents	49	92
Interest rate swaps	37,062	61,404
	4,185,534	4,101,027

The Company's maximum exposure to credit risk for trade receivables and receivables from financial services at the reporting date by customer segment is set out below:

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

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(continued)

23 Financial instruments (continued)

Credit risk (continued)

Maximum credit exposure (continued)

	2023	2022
	\$'000	\$'000
Wholesale	502,100	508,409
Retail	3,646,323	3,531,122
	4,148,423	4,039,531

Impairment losses

The ageing and corresponding impairment of the Company's trade receivables and receivables from financial services at the reporting date under AASB 9 is set out below:

	2023		2022	
	Gross	Impairment	Gross	Impairment
	\$'000	\$'000	\$'000	\$'000
Not past due	3,402,140	(18,377)	3,325,644	(15,054)
Individually impaired	702,687	(910)	686,214	(1,449)
Past due 0-30 days	27,664	(1,931)	22,710	(1,154)
Past due 31-60 days	22,939	(2,891)	15,243	(2,197)
Past due 61-90 days	10,155	(1,923)	7,347	(1,214)
Past due 91 - 180 days	8,751	(2,900)	3,541	(1,053)
Past due > 180 days	4,449	(1,430)	1,392	(439)
	4,178,785	(30,362)	4,062,091	(22,560)

The Company assesses individually each customer with capital outstanding at end of reporting period of greater than one million dollars. Impairment is assessed on the basis of the customer credit rating, which for such customers, is assessed at either the inception of additional lending, or annually, whichever comes sooner. From the credit rating, the probability of default is determined. This is multiplied by a conservative expected loss on the contract, and then multiplied by the loss given default rate to ascertain the impairment amount.

An individual impairment on receivables from financial services is raised also where no collateral is held. These unsecured loans represent a documented finance contract with customers whose debts have previously been written off and thus the collateral already realised. The capital value at inception of an unsecured loan accordingly amounts to the capital outstanding at time of repossession, less collateral sale proceeds, plus any additional charges recoverable from the client. The individual impairment raised equals the unsecured loan portfolio and is adjusted in line with customer repayments and new additions.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

23 Financial instruments (continued)

Credit risk (continued)

Impairment losses (continued)

The vast majority of receivables from financial services related to retail business are grouped in homogeneous pools and collectively assessed for impairment (refer Note 3(k)). The impairment model is based on historical experience and takes into account the current economic conditions. Particular consideration is given to the earlier disclosed aged debtors. The aim of the model is to determine an appropriate level of impairment allowances to reflect losses which have been incurred on the loans in the pool, but have not yet been identified. The movement in the allowance for doubtful debts is shown in Note 14.

A security interest is held over the vehicle financed until such time as the finance contract is paid in full. In case of default, and in accordance with relevant company guidelines, the vehicle may be repossessed and sold to suffice the debt outstanding, being the total future cash flows discounted by the effective customer rate (refer Note 3(k)). Where this amount is not sufficient to cover the debt outstanding, legal proceedings may be ensued to recover the remaining portion, as well as costs incurred upon the termination of the financing contract in accordance with the Company's Terms and Conditions.

As at the reporting date, the following collateral had been repossessed by the Company:

	2023	2022
	\$'000	\$'000
Repossessed vehicles	4,255	1,418

Repossessed assets are redeemable by the customer within 28 days of actual repossession providing that certain payment criteria are met. This period may be shortened, or extended, at the Company's discretion. Where the vehicle is not redeemed, the sale is subsequently conducted through a vehicle auction house where a reserve is set. Alternatively the vehicle can be remarketed directly through the Mercedes-Benz dealer network.

Repossessed vehicles are reported as finished goods in inventory in the balance sheet.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

23 Financial instruments (continued)

Liquidity risk

Liquidity risk represents the risk that a Company will face difficulty in meeting future obligations associated with its financial liabilities.

The Company's main sources of liquidity are its operations and borrowings sourced through related parties. The related parties' main sources of funds come from bank loans, commercial paper, notes issuances (secured and unsecured) and loans from the ultimate parent entity. Funds are sourced from both the domestic and international markets.

The borrowings are primarily used to fund wholesale and retail customers in the course of the leasing and financing business, and to meet working capital needs.

Immediate cash management is handled through daily requirement analyses. The Company seeks to hold sufficient liquid funds to meet daily needs, primarily in the form of cash and cash equivalents. Where additional funds are required, the Company utilises a related party overnight borrowing facility. Conversely, where surplus funds are held, the Company is able to invest in a related party overnight facility. This is consistent with the Mercedes-Benz AG cash concentration method which is used as the basis for cash and asset management throughout the group. The overriding principle of cash management is to concentrate cash at the highest possible level to maximise investment returns and to minimize borrowing costs.

Additionally, the Company monitors liquidity exposure in the short and medium term by comparing financial assets and financial liabilities for their corresponding maturities, including the estimated cash inflows from the operating business. Liquidity exposure is actively managed out to three years from the reporting date and is kept within targeted exposure limits as defined by Mercedes-Benz Group AG.

The ability of the Company to draw on excess liquidity via Mercedes-Benz Australia/Pacific Pty Ltd within the worldwide group by the related parties obtaining loans from the ultimate parent entity, and the available committed credit lines already in place, give the Company adequate flexibility to cover refinancing requirements and to match the characteristics of assets by obtaining sufficient funds of requisite tenor and interest rate terms.

The following is a maturity analysis of the Company's financial liabilities, excluding estimated interest payments and excluding the impact of netting arrangements.

Cash flows associated with derivatives that are cash flow hedges are predominantly expected to impact profit or loss within the same reporting period as in which the cash flow occurs. That is, consistent with the table below. Any differences are not expected to be material.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

23 Financial instruments (continued)

Liquidity risk (continued)

2023	Carrying amount \$'000	Contractual expected cash flows \$'000	1 year or less \$'000	1 to 2 years \$'000	2 to 3 years \$'000	More than 3 years \$'000
Non derivative financial liabilities						
Loans from related parties	1,861,666	(1,861,666)	(1,101,031)	(177,458)	(583,177)	-
Loans from external parties	2,039,067	(2,039,067)	(580,022)	(960,709)	(498,336)	-
Trade and other payables	102,832	(102,832)	(102,832)	-	-	-
Lease liabilities	10,716	(10,716)	(722)	(747)	(773)	(8,474)
	4,014,281	(4,014,281)	(1,784,607)	(1,138,914)	(1,082,286)	(8,474)
Derivative financial assets						
Foreign currency option contracts - no hedge accounting	324	(324)	(342)	-	-	-
Interest rate swap contracts - no hedge accounting	37,062	(37,062)	(8,489)	(6,949)	(568)	(21,056)
	37,386	(37,386)	(8,831)	(6,949)	(568)	(21,056)

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

23 Financial instruments (continued)

Liquidity risk (continued)

2022

Non derivative financial liabilities

	Carrying amount \$'000	Contractual expected cash flows \$'000	1 year or less \$'000	1 to 2 years \$'000	2-3 years \$'000	More than 3 years \$'000
Loans from related parties	1,332,141	(1,332,141)	(603,939)	(634,269)	(93,933)	-
Loans from external parties	2,493,850	(2,493,850)	(1,214,885)	(514,656)	(464,413)	(299,896)
Trade and other payables	99,695	(99,695)	(99,695)	-	-	-
	<u>3,925,686</u>	<u>(3,925,686)</u>	<u>(1,918,519)</u>	<u>(1,148,925)</u>	<u>(558,346)</u>	<u>(299,896)</u>

Derivative financial assets

Foreign currency option contracts - no hedge accounting	236	(236)	(236)	-	-	-
Interest rate swap contracts - no hedge accounting	61,404	(61,404)	(3,459)	(8,304)	(7,530)	(42,111)
	<u>61,640</u>	<u>(61,640)</u>	<u>(3,695)</u>	<u>(8,304)</u>	<u>(7,530)</u>	<u>(42,111)</u>

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

23 Financial instruments (continued)

Fair values

Net fair values of financial assets and liabilities are determined by the Company on the following bases:

Recognised financial instruments

Other monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of contractual cash flows on amounts due from customers (reduced for expected credit losses) or due to suppliers. Cash flows are discounted by using standard valuation techniques at the applicable market yield having regard to the timing of cash flows.

The Company has not disclosed fair value of each class of financial assets and financial liabilities not measured at fair value because their carrying amounts are a reasonable approximation of fair value. For interest-bearing loans and receivables from financial services this assessment was done by discounting the expected future principal and interest cash flows.

Fair value hierarchy

As at 31 December 2023, derivative financial liabilities of \$21,792,209 (2022: \$46,299,991) and derivative financial assets of \$37,061,189 (2022: \$61,403,002) are carried at fair value based on a Level 2 valuation methodology which requires inputs, other than quoted prices in an active markets for identical assets and liabilities, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Fair value is calculated based on discounted expected future principal and interest cash flows.

Interest rates used for determining fair value

The Company uses the government borrowing yield curve as of 31 December 2023 plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

	2023	2022
Derivatives	0.10% - 4.60%	0.03% - 4.60%
Loans and borrowings	3.76% - 4.34%	3.01% - 4.55%
Receivables from financial services	7.08%	5.89%

Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company is required to comply with certain capital and liquidity requirements as a holder of an Australian Financial Services License.

There was no change in the Group's approach to capital management requirements during the year.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

24 Employee benefits

	2023 \$'000	2022 \$'000
Current		
Share based payment transactions	578	440
Provision for employee benefits	7,599	7,336
	8,177	7,776
Non-current		
Share based payment transactions	401	756
Provision for employee benefits	361	370
	762	1,126

The present value of employee entitlements not expected to be settled within twelve months has been calculated using the following weighted averages:

	2023	2022
Assumed rate of increase in wage and salary rates	5.40%	7.30%
Discount rate	3.98%	3.83%

Superannuation plan

During the year the Company contributed to the Mercedes-Benz Superannuation Plan, a related party plan to which it is an associated member, being part of the Mercer Super Trust in respect of all its permanent employees.

The obligation of the Company to make contributions to the Mercedes-Benz Superannuation Plan is legally enforceable up to the date on which the Company gives notice to suspend or terminate contributions as provided in the trust deed.

Performance Phantom Share Plan

In 2005 Mercedes-Benz Group AG adopted the "Performance Phantom Share Plan" under which virtual shares (phantom shares) are granted to eligible employees entitling them to receive cash paid out after four years. The amount of cash paid to eligible employees is based on the number of phantom shares that vest (determined over a three year performance period) times the quoted price of Ordinary Shares of Mercedes-Benz Group AG (determined as an average price over a specified period at the end of the four-year service). The number of phantom shares that vest will depend on the achievement of Mercedes-Benz Group AG performance goals as compared with competitive and internal benchmarks (return on net assets and return on sales). Mercedes-Benz Group AG will not issue any common shares in connection with the Performance Phantom Share Plan.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

24 Employee benefits (continued)

Performance Phantom Share Plan (continued)

In 2022 the Company recognised an addition to the employee entitlement for Performance Phantom Share Plans in the income statement of \$239,015 (refer Note 6). In 2023 the Company recognised an addition to the employee entitlement for Performance Phantom Share Plans in the income statement of \$310,231 (refer Note 6). As the payment per vested phantom share depends on the quoted price of one Mercedes-Benz Group AG Ordinary Share, the average quoted price represents the fair value of each phantom share. The proportionate entitlement release and compensation expense for share plans granted in 2022 and 2023 respectively, is determined based on the quoted price of Mercedes-Benz Group AG Ordinary Shares as well as the estimated target achievement. The carrying amount of the entitlements granted has been recognised as a provision.

The number of phantom shares granted by Mercedes-Benz Group AG to key management personnel of the Company at 31 December 2023 was 14,534 (2022: 11,613).

25 Notes to the statement of cash flows

	2023 \$'000	2022 \$'000
Profit for the period	32,689	55,226
Adjustments for		
Depreciation and amortisation expense	12,970	12,858
Gain on sale of property, plant and equipment	1,172	(178)
Bad debts written off	13,552	8,379
Net expense for movements to provision for doubtful debts	7,446	491
Operating profit before changes in working capital	67,829	76,776
(Increase) / decrease in receivables from financial services	(130,914)	70,741
(Increase) / decrease in trade receivables	(148)	(4,545)
(Increase) / decrease in inventory	(1,752)	4,013
(Increase) / decrease in other assets	5,063	11,487
(Increase) / decrease in derivative financial instruments	24,254	(53,728)
(Increase) / decrease in deferred tax assets (net)	(7,943)	2,291
Increase / (decrease) in employee entitlements	37	(17,843)
Increase / (decrease) in trade and other payables	3,137	11,597
Unrealised gain / (loss) on derivatives	(10,339)	9,662
Net cash (used in)/ from operating activities	(50,776)	110,451

Cash provided by financing activities

Cash provided by financing activities includes cash flows from hedging the currency risks of financial liabilities. In 2023, cash provided by financing activities included payments for the reduction of outstanding leasing liabilities of \$0.4 million. The below table includes changes in liabilities arising from financing activities.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

25 Notes to the statement of cash flows (continued)

	Interest bearing liabilities \$'000	Derivatives \$'000
Change in liabilities arising from financing activities 2023		
Drawdown of loans	30,238,078	-
Repayment of loans	(30,163,234)	-
Other changes	10,716	
Settlement of derivatives	-	(24,254)
	<u>85,560</u>	<u>(24,254)</u>
	Interest bearing liabilities \$'000	Derivatives \$'000
Change in liabilities arising from financing activities 2022		
Drawdown of loans	35,149,285	-
Repayment of loans	(35,148,751)	-
Settlement of derivatives	-	(708)
	<u>472</u>	<u>(708)</u>

26 Operating leases

Leases as lessee

The Company leases property and equipment under operating leases expiring from one to five years. Leases of property generally provide the Company with the right of renewal at which time all terms are renegotiated.

Leases as lessor

The Company provides vehicles held under operating leases. Future non-cancellable motor vehicle operating lease rental income not provided for in the financial statements and receivable is due as follows:

	2023 \$'000	2022 \$'000
Within one year	2,401	4,820
One year or later but not later than five years	3,050	5,440
	<u>5,451</u>	<u>10,260</u>

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

27 Parent entity

The immediate parent entity of the Company is Mercedes-Benz Mobility Australia Pty Ltd ("MBMAu"), which is incorporated in Australia. The ultimate parent entity of the Company is Mercedes-Benz Group AG, a company incorporated in Germany.

28 Key management personnel

In addition to their salaries, the Company provides non-cash benefits to key management personnel and contributes to a superannuation fund on their behalf (refer Note 24 for details on the superannuation plan).

The key management personnel compensation included in "employee expenses" (refer Note 6) is as follows:

	2023 \$'000	2022 \$'000
Short-term employee benefits	3,152	2,727
Other long-term benefits	14	7
Termination benefits	-	-
Post-employment benefits	148	63
Share-based payments*	609	113
	3,923	2,910

*Share based payments are paid by the ultimate parent entity to key management personnel.

In accordance with AASB 124 Related Party Disclosures, key management personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. For purposes of AASB 124 Related Party Disclosures, the below personnel are considered key management personnel of the Group:

- Managing Director
- Chief Financial Officer
- Director of Credit and Credit Operations
- Director of Sales & Marketing

29 Related party disclosures

The names of each person holding the position of director of the Company during the year ended 31 December 2023 are Ilka Fuerstenberger and Rafael Pasquet.

Details of directors' remuneration payments are included in Note 28.

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

29 Related party disclosures (continued)

Controlled entities

On the inception of the SAAT 2019-1 in January 2019, the Company invested in Class B notes issued by the SAAT 2019-1, totalling \$112,070,852. On the inception of the SAA 2020-1 in November 2020, the Company invested in Class B notes issued by the SAA 2020-1, totalling \$54,400,000. The trusts used the funds received to purchase receivables from financing activities from the Company.

SAAT 2019-1 and SAA 2020-1 balances have been consolidated in the financial statements.

Related entities

All transactions within the ultimate parent's wholly owned group during the year were made under normal commercial terms and conditions.

In the course of providing wholesale finance to dealers, the Company made payments under normal trading terms to Mercedes-Benz Australia /Pacific Pty Ltd, for the purchase of motor vehicles on behalf of dealers.

Daimler Truck Australia Pacific Pty Ltd has entered into operating leases with the Company. The revenues from these leases have been disclosed in Note 5.

The Company has interest bearing debts to its related parties. The interest expense is disclosed in Note 9. The carrying amount is disclosed in Note 22.

The Company enters into interest rate swaps and foreign currency option contracts with Mercedes-Benz Group AG. The interest expense, and interest income, is disclosed in Note 9. The carrying amount for the financial liabilities is disclosed in Note 21. The carrying amount for the financial assets is disclosed in Note 15.

The Company paid commissions to Mercedes-Benz Australia /Pacific Pty Ltd totalling \$1,107,574 (2022: \$810,722) under normal terms and conditions. The total residual value guaranteed by Mercedes-Benz Australia /Pacific Pty Ltd is amounting to \$47,795,069 (2022: \$74,150,545).

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

29 Related party disclosures (continued)

Related entities (continued)

Balances with entities within the wholly-owned group

The aggregate amounts payable and receivable to entities within the Mercedes-Benz Group AG by the Group at balance date:

	Note	2023 \$'000	2022 \$'000
Current assets			
Trade receivables	13	19,077	12,415
Receivables from financial services	14	14	105
Derivative financial instruments	15	37,386	61,640
Current tax assets	19	483	5,332
		<u>56,960</u>	<u>79,492</u>
Current liabilities			
Trade and other payables	21	81,968	81,419
Interest bearing liabilities	22	1,101,224	603,939
		<u>1,183,192</u>	<u>685,358</u>
Non-current liabilities			
Interest bearing liabilities	22	<u>771,158</u>	<u>728,202</u>

30 Parent entity disclosure

As at, and throughout, the financial year ended 31 December 2023, the parent entity of the Group was Mercedes-Benz Financial Services Australia Pty Ltd.

	2023 \$'000	2022 \$'000
Financial position of the parent entity at year end		
Current assets	1,591,979	1,588,069
Non-current assets	<u>1,472,570</u>	<u>1,297,265</u>
Total assets	<u>3,064,549</u>	<u>2,885,334</u>

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

30 Parent entity disclosure (continued)

	2023	2022
	\$'000	\$'000
Current liabilities	1,792,255	1,926,295
Non-current liabilities	998,880	670,175
Total liabilities	2,791,135	2,596,470
	2023	2022
	\$'000	\$'000
Financial position of the parent entity at year end		
Share capital	115,000	115,000
Retained earnings	208,056	213,167
Hedge revaluation reserves	4,165	14,504
Merger reserve	(53,807)	(53,807)
Net equity	273,414	288,864
	2023	2022
	\$'000	\$'000
Result of parent company		
Profit/(loss) for the year/period	22,350	64,888

Mercedes-Benz Financial Services

Notes to the Consolidated Financial Statements

31 December 2023

(continued)

31 Events subsequent to balance date

In February 2024, the Board resolves that the renewal of the ABS warehouse with Bank of America ("SAAT 2019-1") with reducing the current volume of \$1 billion to \$100 million in April 2024. The Board resolves that the Company will set up a \$1.2 billion ABS warehouse with Mizuho Bank from April 2024. A new special purpose entity, Silver Arrow Australia Trust 2024-1, will be set up for trading and investment purpose.

Other than what is noted above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

32 Contingencies

The Directors are not aware of any contingent assets or liabilities requiring disclosure.

33 Capital and reserves

Issuance of ordinary shares

In 2023 no ordinary shares were issued (in 2022: nil).

Ordinary shares

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

Hedging revaluation reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments, net of tax.

Merger reserve

Merger reserve relates to the difference between the consideration received and net assets of the disposed business when the Company applied book value accounting for common control transactions (refer to note 30).

Dividends

Dividends totalling \$37,800,000 were declared and paid in the year ended 31 December 2023 (2022: \$115,000,000). Of the total dividend disclosed, \$15,000,000 was a cash distribution to its immediate parent on 20 September 2023. Of the total dividend disclosed, \$22,800,000 was a cash distribution to its immediate parent on 27 November 2023.



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Mercedes-Benz Financial Services Australia Pty Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of Mercedes-Benz Financial Services Australia Pty Ltd for the financial year ended 31 December 2023 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

A small, stylized KPMG logo in blue ink.

A handwritten signature in blue ink, appearing to read 'Dean Waters'.

KPMG

Dean Waters

Partner

Melbourne

30 April 2024



Independent Auditor's Report

To the shareholder of Mercedes-Benz Financial Services Australia Pty Ltd

Opinion

We have audited the **Financial Report** of Mercedes-Benz Financial Services Australia Pty Ltd (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 31 December 2023 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 31 December 2023
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes, including material accounting policies
- Directors' Declaration.

The **Group** consists of Mercedes-Benz Financial Services Australia Pty Ltd (the Company) and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code)* that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other Information

Other Information is financial and non-financial information in Mercedes-Benz Financial Services Australia Pty Ltd's annual report which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf.

This description forms part of our Auditor's Report.



KPMG



Dean Waters

Partner

Melbourne

30 April 2024