

F.96**Average prices of hedging instruments for the major risks
(according to IFRS 9)****At December 31, 2018**

Foreign currency risk	
USD per €	1.18
CNY per €	8.37
GBP per €	0.88
Interest rate risk	
Fair value hedges	
Average rate - €	-0.82%
Average rate - USD	0.46%
Cash flow hedges	
Average rate - €	-0.59%
Average rate - USD	-0.07%
Commodity risk	
Platinum (in € per troy ounce)	819
Aluminum (in € per ton)	1,606
Palladium (in € per troy ounce)	688

33. Management of financial risks

General information on financial risks

As a result of its businesses and the global nature of its operations, Daimler is exposed in particular to market risks from changes in foreign currency exchange rates and interest rates, while commodity price risks arise from procurement. An equity price risk results from investments in listed companies. In addition, the Group is exposed to credit risks from its leasing and financing activities and from its operating business (trade receivables). Furthermore, the Group is exposed to liquidity and country risks relating to its credit and market risks or a deterioration of its operating business or financial market disturbances. If these financial risks materialize, they could adversely affect Daimler's profitability, liquidity and capital resources and financial position.

Daimler has established internal guidelines for risk controlling procedures and for the use of financial instruments, including a clear segregation of duties with regard to financial activities, settlement, accounting and the related controlling. The guidelines upon which the Group's risk management processes for financial risks are based are designed to identify and analyze these risks throughout the Group, to set appropriate risk limits and controls and to monitor the risks by means of reliable and up-to-date administrative and information systems. The guidelines and systems are regularly reviewed and adjusted to changes in markets and products.

The Group manages and monitors these risks primarily through its operating and financing activities and, if required, through the use of derivative financial instruments. Daimler uses derivative financial instruments exclusively for hedging financial risks that arise from its operating business or refinancing activities. Without these derivative financial instruments, the Group would be exposed to higher financial risks (additional information on financial instruments and especially on the volumes of the derivative financial instruments used is included in [Note 32](#)). Daimler regularly evaluates its financial risks with due consideration of changes in key economic indicators and up-to-date market information.

Any market sensitive instruments including equity and debt securities that the plan assets hold to finance pension and other post-employment healthcare benefits are not included in the following quantitative and qualitative analysis. See [Note 22](#) for additional information on Daimler's pension and other post-employment benefits.

Credit risk

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

The maximum risk positions of financial assets which are generally subject to credit risk are equal to their carrying amounts (without consideration of collateral, if available). There is also a risk of default from irrevocable loan commitments which had not been utilized as of that date, as well as from financial guarantees. The maximum risk position in these cases is equal to the expected future cash outflows. Table [F.97](#) shows the maximum risk positions.

Liquid assets

Liquid assets consist of cash and cash equivalents and marketable debt securities and similar investments. With the investment of liquid assets, banks and issuers of securities are selected very carefully and diversified in accordance with a limit system. Liquid assets are mainly held at financial institutions within and outside Europe with high creditworthiness, as bonds issued by German federal states and as money market funds. In connection with investment decisions, priority is placed on the borrower's very high creditworthiness and on balanced risk diversification. The limits and their utilizations are reassessed continuously. In this assessment, Daimler also considers the credit risk assessment of its counterparties by the capital markets. In line with the Group's risk policy, most liquid assets are held in investments with an external rating of "A" or better. Liquid assets are thus not subject to a material credit risk and are allocated to stage 1 of the impairment model (see [Note 1](#)).

Receivables from financial services

Daimler's financing and leasing activities are primarily focused on supporting the sales of the Group's automotive products. As a consequence of these activities, the Group is exposed to credit risk, which is monitored and managed based on defined standards, guidelines and procedures. Daimler manages its credit risk irrespective of whether it is related to a financing contract or to an operating lease or a finance lease contract. For this reason, statements concerning the credit risk of Daimler Financial Services refer to the entire financing and leasing business, unless specified otherwise.

Exposure to credit risk from financing and lease activities is monitored based on the portfolio subject to credit risk. The portfolio subject to credit risk is an internal control quantity that consists of wholesale and retail receivables from financial services and the portion of the operating lease portfolio that is subject to credit risk. Receivables from financial services comprise claims arising from finance lease contracts and repayment claims from financing loans. The operating lease portfolio is reported under equipment on operating leases in the Group's Consolidated Financial Statements. Overdue lease payments from operating lease contracts are recognized in receivables from financial services.

The Daimler Financial Services segment has guidelines setting the framework for effective risk management at a global as well as at a local level. In particular, these rules deal with minimum requirements for all risk-relevant credit processes, the definition of financing products offered, the evaluation of customer quality, requests for collateral as well as the treatment of unsecured loans and non-performing claims. The limitation of concentration risks is implemented primarily by means of global limits, which refer to single customer exposures. As of December 31, 2018, exposure to the biggest 15 customers did not exceed 3.8% (2017: 4.0%) of the total portfolio.

With respect to its financing and lease activities, the Group holds collateral for customer transactions. The value of collateral generally depends on the amount of the financed assets. The financed vehicles usually serve as collateral. Furthermore, Daimler Financial Services mitigates the credit risk from financing and lease activities, for example through advance payments from customers.

Scoring systems are applied for the assessment of the default risk of retail and small business customers. Corporate customers are evaluated using internal rating instruments. Both evaluation processes use external credit bureau data if available. The scoring and rating results as well as the availability of security and other risk mitigation instruments, such as advance payments, guarantees and, to a lower extent, residual debt insurances, are essential elements for credit decisions.

Following the impairment model expected credit losses from receivables from financial services (see [Note 1](#)) are calculated with a statistical model using three major risk parameters: probability of default, loss given default and exposure at default.

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Maximum risk positions of financial assets, irrevocable loan commitments and financial guarantees

	see also Note	Maximum risk position 2018	Maximum risk position 2017
In millions of euros			
Liquid assets		25,430	22,135
Receivables from financial services	14	96,740	86,054
Trade receivables	19	12,586	11,995
Derivative financial instruments used in hedge accounting (assets only)	16	1,033	2,379
Derivative financial instruments not used in hedge accounting (assets only)	16	109	82
Other receivables and financial assets	16	3,177	3,172
Irrevocable loan commitments		2,051	1,894
Financial guarantees		672	667

In determining expected credit losses, existing collateral is generally given due consideration. The actual credit risk is limited by the fair value of collateral (e.g. financed vehicles).

If, in connection with contracts, a worsening of payment behavior or other causes of a credit risk are recognized, collection procedures are initiated by claims management to obtain the overdue payments of the customer, to take possession of the asset financed or leased or, alternatively, to renegotiate the impaired contract. Restructuring policies and practices are based on the indicators or criteria which, in the judgment of local management, indicate that repayment will probably continue and that the total proceeds expected to be derived from the renegotiated contract exceed the expected proceeds to be derived from repossession and remarketing. For receivables from financial services, significant modifications of financial assets only occurred in rare cases and immaterial volume.

The allowance ratio slightly increased compared to the low level of the previous year.

Further details of receivables from financial services and the balance of the recorded impairments are provided in

[Note 14](#).

Trade receivables

Trade receivables are mostly receivables from worldwide sales activities of vehicles and spare parts. The credit risk from trade receivables encompasses the default risk of customers, e.g. dealers and general distribution companies, as well as other corporate and private customers. In order to identify credit risks, Daimler assesses the creditworthiness of the customers. Daimler manages its credit risk from trade receivables using appropriate IT applications and databases on the basis of internal guidelines which have to be followed globally.

A significant part of the trade receivables from each country's domestic business is secured by various country-specific types of collateral. This collateral includes conditional sales, guarantees and sureties as well as mortgages and advance payments from customers.

For trade receivables from export business, Daimler also evaluates each general distribution company's creditworthiness by means of an internal rating process and its country risk. In this context, the year-end financial statements and other relevant information on the general distribution companies such as payment history are used and assessed.

Depending on the creditworthiness of the general distribution companies, Daimler usually establishes credit limits and limits credit risks with the following types of collateral:

- credit insurances,
- first-class bank guarantees and
- letters of credit.

These procedures are defined in the export credit guidelines, which have Group-wide validity.

In line with the impairment model (see [Note 1](#)), the simplified approach is applied for impairments of trade receivables, whereby expected credit losses until maturity for these trade receivables are recognized with the initial recognition.

Further information on trade receivables and the status of impairments recognized is provided in [Note 19](#).

Derivative financial instruments

The Group uses derivative financial instruments exclusively for hedging financial risks that arise from its operational business or refinancing activities. Daimler manages its credit risk exposure in connection with derivative financial instruments through a limit system, which is based on the review of each counterparty's financial strength. This system limits and diversifies the credit risk. As a result, Daimler is exposed to credit risk only to a small extent with respect to its derivative financial instruments. In accordance with the Group's risk policy, most derivatives are contracted with counterparties which have an external rating of "A" or better.

Other receivables and financial assets

With respect to other receivables and financial assets included in other financial assets in 2018 and 2017, Daimler is exposed to credit risk only to a small extent.

Irrevocable loan commitments

The Daimler Financial Services segment in particular is exposed to credit risk from irrevocable loan commitments to retailers and end customers. At December 31, 2018, irrevocable loan commitments amounted to €2,051 million (2017: €1,894 million). These loan commitments had a maturity of less than one year and are not subject to a material credit risk.

Financial guarantees

The maximum potential obligation resulting from financial guarantees amounts to €672 million at December 31, 2018 (2017: €667 million) and includes liabilities recognized at December 31, 2018 in the amount of €124 million (2017: €141 million). Financial guarantees principally represent contractual arrangements. These guarantees generally provide that in the event of default or non-payment by the primary debtor, the Group will be required to settle such financial obligations.

Liquidity risk

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

Daimler manages its liquidity by holding adequate volumes of liquid assets and by maintaining syndicated credit facilities in addition to the cash inflows generated by its operating business. Additionally, the possibility to securitize receivables of financial services business (ABS transactions) also reduces the Group's liquidity risk. Liquid assets comprise cash and cash equivalents and marketable debt securities and similar investments. The Group can dispose of these liquid assets at short notice.

In general, Daimler makes use of a broad spectrum of financial instruments to cover its funding requirements. Depending on funding requirements and market conditions, Daimler issues commercial paper, bonds and financial instruments secured by receivables in various currencies. Bank credit facilities are also used to cover financing requirements. Potential downgrades of Daimler's credit ratings could have a negative impact on the Group's financing. In July 2018, Daimler successfully concluded negotiations with a consortium of international banks for a new syndicated credit facility with a volume raised from €9 billion to €11 billion. With a term of five years, it grants Daimler additional financial flexibility until 2023. The term can be extended to 2025. Daimler does not intend to utilize the credit facility.

In addition, customer deposits at Mercedes-Benz Bank are used as a further source of refinancing.

The funds raised are used to finance working capital and capital expenditure as well as the cash needs of the lease and financing business and unexpected liquidity needs. In accordance with internal guidelines, the refunding of the lease and financing business is generally carried out with matching maturities so that financing liabilities have the same maturity profile as the leased assets and the receivables from financial services.

At December 31, 2018, liquidity amounted to €25.4 billion (2017: €22.1 billion). In 2018, significant cash inflows resulted from the operations of the industrial business. One cash inflow of €1.3 billion resulted from the dividend distributed by Beijing Benz Automotive Co. Ltd. Cash outflows resulted in particular from the portfolio growth of the leasing and sales finance activities at Daimler Financial Services, from the intensified investment offensive as well as from income taxes paid. Cash inflows and outflows in connection with the cash flow of the financing activities were also effective.

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

Table [7 F.98](#) provides an overview of how the future liquidity situation of the Group can be affected by the cash flows from liabilities, financial guarantees and irrevocable loan commitments as of December 31, 2018.

Information on the Group's financing liabilities is also provided in [Note 24](#).

Country risk

Country risk is the risk of economic loss arising from changes of political, economic, legal or social conditions in the respective country, e.g. resulting from sovereign measures such as expropriation or interdiction of foreign currency transfers.

Daimler is exposed to country risk mainly resulting from cross-border funding or collateralization of Group companies and customers, from investments in subsidiaries, associated companies, joint ventures and joint operations as well as from cross-border trade receivables. Country risks also arise from cross-border cash deposits at financial institutions.

Daimler manages these risks via country exposure limits (e.g. for export credits or for hard currency portfolios of financial services entities) and via insurance of equity investments in high-risk countries. An internal rating system serves as a basis for Daimler's risk-oriented country exposure management; it assigns all countries to risk classes, with consideration of external ratings and capital market indications of country risks.

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Liquidity runoff for liabilities and financial guarantees¹

	Total	2019	2020	2021	2022	2023	≥ 2024
In millions of euros							
Financing liabilities ²	154,155	59,451	35,991	24,616	8,585	5,578	19,934
Derivative financial instruments ³	575	540	62	-47	-50	9	61
Trade payables ⁴	14,185	14,169	14	1	1	-	-
Miscellaneous other financial liabilities excluding accrued interest and liabilities from financial guarantees	7,653	5,744	923	394	242	122	228
Irrevocable loan commitments of the Daimler Financial Services segment and of Daimler AG ⁵	2,051	2,051	-	-	-	-	-
Financial guarantees ⁶	672	672	-	-	-	-	-
	179,291	82,627	36,990	24,964	8,778	5,709	20,223

1 The amounts were calculated as follows:

- (a) If the counterparty can request payment at different dates, the liability is included on the basis of the earliest date on which Daimler can be required to pay. The customer deposits of Mercedes-Benz Bank are mostly considered in this analysis to mature within the first year.
- (b) The cash flows of floating interest financial instruments are estimated on the basis of forward rates.
- 2 The stated cash flows of financing liabilities consist of their undiscounted principal and interest payments.
- 3 The undiscounted sum of the net cash outflows of the derivative financial instruments is shown for the respective year. For individual periods, this may also include negative cash flows from derivatives with an overall positive fair value.
- 4 The cash outflows of trade payables are undiscounted.
- 5 The maximum available amounts are stated.
- 6 The maximum potential obligations under the issued guarantees are stated. It is assumed that the amounts are due within the first year.

Finance market risks

The global nature of its businesses exposes Daimler to significant market risks resulting from fluctuations in foreign currency exchange rates and interest rates. In addition, the Group is exposed to market risks in terms of commodity price risk associated with its business operations, which the Group hedges for certain metals partially through derivative financial instruments. The Group is also exposed to equity price risk in connection with its investments in listed companies.

Daimler manages market risks to minimize the impact of fluctuations in foreign exchange rates, interest rates and commodity prices on the results of the Group and its segments. The Group calculates its overall exposure to these market risks to provide the basis for hedging decisions, which include the selection of hedging instruments and the determination of hedging volumes and the corresponding periods. Starting in 2019, exposure to currency risks will be determined for each segment. The hedging strategy is specified at the Group level and uniformly implemented in the segments. Decisions regarding the management of market risks resulting from fluctuations in foreign exchange rates, interest rates (asset-/liability management) and commodity prices are regularly made by the relevant Daimler risk management committees. Exposures are the basis of the hedging strategies and are updated regularly.

As part of its risk management system, Daimler employs value at risk analyses. In performing these analyses, Daimler quantifies its market risk due to changes in foreign currency exchange rates and interest rates and certain commodity prices on a regular basis by predicting the potential loss over a target time horizon (holding period) and confidence level.

The value at risk calculations employed:

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

Daimler calculates the value at risk for exchange rate and interest rate risk according to the variance-covariance approach. The value at risk calculation method for commodity hedging instruments is based on a Monte Carlo simulation.

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

The Monte Carlo simulation uses random numbers to generate possible changes in market risk factors consistent with current market volatilities. The changes in market risk factors allow the calculation of a possible change in the portfolio value over the holding period. Running multiple iterations of this simulation leads to a distribution of portfolio value changes. The value at

risk can be determined based on this distribution as the portfolio value loss which is reached or exceeded with a probability of 1%.

Oriented towards the risk management standards of the international banking industry, Daimler maintains its financial controlling unit independent of operating Corporate Treasury and with a separate reporting line.

Exchange rate risk

Transaction risk and currency risk management. The global nature of Daimler's businesses exposes cash flows and earnings to risks arising from fluctuations in exchange rates. These risks primarily relate to fluctuations between the euro and the US dollar, the Chinese renminbi, the British pound and other currencies such as currencies of growth markets. In the operating vehicle business, the Group's exchange rate risk primarily arises when revenue is generated in a currency that is different from the currency in which the costs of generating the revenue are incurred (transaction risk). When the revenue is converted into the currency in which the costs are incurred, it may be inadequate to cover the costs if the value of the currency in which the revenue is generated declined in the interim relative to the value of the currency in which the costs were incurred. This risk exposure primarily affects the Mercedes-Benz Cars segment, which generates a major portion of its revenue in foreign currencies and incurs manufacturing costs primarily in euros. The Daimler Trucks segment is also subject to transaction risk, but to a lesser extent because of its global production network. The Mercedes-Benz Vans and Daimler Buses segments are also directly exposed to transaction risk, but also only to a minor degree compared to the Mercedes-Benz Cars segment. In addition, the Group is indirectly exposed to transaction risk from its equity-method investments.

The Group's currency exposure is reduced by natural hedging to the extent that currency exposures of the operating businesses of individual segments offset each other partially at Group level, thereby reducing overall currency exposure. These natural hedges eliminate the need for hedging to the extent of the matched exposures. To provide an additional natural hedge against any remaining transaction risk exposure, Daimler generally strives to increase cash outflows in the same currencies in which the Group has a net excess inflow.

In order to mitigate the impact of currency exchange rate fluctuations for the operating business (future transactions), Daimler continually assesses its exposure to exchange rate risks and hedges a portion of those risks by using derivative financial instruments. Daimler's Foreign Exchange Committee (FXCo) manages the Group's exchange rate risk and its hedging transactions through currency derivatives. The FXCo consists of representatives of the relevant segments and central functions. The Corporate Treasury department aggregates foreign currency exposures from Daimler's subsidiaries and operative units and implements the FXCo's decisions concerning foreign currency hedging through transactions with international financial institutions. Any over-hedge caused by changes in exposure is generally reversed by taking suitable measures without delay.

Risk Controlling regularly informs the Board of Management of the actions taken by Corporate Treasury based on the FXCo's decisions.

F.99**Value at risk for exchange rate risk, interest rate risk and commodity price risk**

	2018				2017			
	Period-end	High	Low	Average	Period-end	High	Low	Average
In millions of euros								
Exchange rate risk (from derivative financial instruments)	568	695	568	633	779	877	779	815
Interest rate risk	26	45	26	36	43	48	43	46
Commodity price risk (from derivative financial instruments)	14	23	14	18	14	25	14	17

The Group's targeted hedge ratios for forecasted operating cash flows in foreign currency are indicated by a reference model. On the one hand, the hedging horizon is naturally limited by uncertainty related to cash flows that lie far in the future; on the other hand, it may also be limited by the fact that appropriate currency contracts are not available. This reference model aims to limit risks for the Group from unfavorable movements in exchange rates while preserving some flexibility to participate in favorable developments. Based on this reference model and depending on the market outlook, the FXCo determines the hedging horizon, which usually varies from one to five years, as well as the average hedge ratios. Reflecting the character of the underlying risks, the hedge ratios decrease with increasing maturities. At year-end 2018, foreign exchange management showed an unhedged position in the automotive business for the underlying forecasted cash flows in US dollars in calendar year 2019 of 29%, for the underlying forecasted cash flows in Chinese renminbi in calendar year 2019 of 30%, as well as for the underlying forecasted cash flows in British pounds in calendar year 2019 of 33%.

The hedged position of the operating vehicle businesses is influenced by the amount of derivative currency contracts held. The derivative financial instruments used to cover foreign currency exposure are primarily forward foreign exchange contracts and currency options. Daimler's guidelines call for a mixture of these instruments depending on the assessment of market conditions. Value at risk is used to measure the exchange rate risk inherent in these derivative financial instruments.

Table [7 F.99](#) shows the period-end, high, low and average value at risk figures of the exchange rate risk for the 2018 and 2017 portfolios of derivative financial instruments, which were entered into primarily in connection with the operative vehicle businesses. Average exposure has been computed on an end-of-quarter basis. The offsetting transactions underlying the derivative financial instruments are not included in the following value at risk presentation. See also table [7 F.94](#) at December 31, 2018 according to IFRS 9 and table [7 F.95](#) at December 31, 2017 according to IAS 39 for the nominal volumes on the balance sheet date of derivative currency instruments entered into to hedge the currency risk from forecasted transactions.

Hedge accounting. When designating derivative financial instruments, a hedge ratio of 1 is applied. In addition, the respective volume and currency of the hedge and the underlying transaction as well as maturity dates are matched. The Group ensures an economic relationship between the underlying transaction and the hedging transaction by ensuring consistency of currency, volume and maturity. In the case of options for currency hedging, the option premium is not designated into the hedge relationship, but the hedging costs are deferred in other comprehensive income and recognized in profit or loss at the due date of the underlying transaction. The effectiveness of the hedge is assessed at the beginning and during the economic relationship. Possible sources of ineffectiveness of the hedge relationship are:

- Effects of the credit risk on the fair value of the used derivative instrument which is not reflected in the change of the hedged currency risk.
- Changes in the timing of the hedged transactions.

In the course of focusing on the divisional perspective the designation of hedge relationships primarily for foreign currency risk from future vehicle sales will be subject to a further differentiation by Mercedes-Benz Cars/Mercedes-Benz Vans as well as Daimler Trucks/Daimler Buses starting with 2019. Until year-end 2018, the designation of these hedge relationships for a specific currency and maturity has no further differentiation in respect of the entire volume of expected vehicle sales by segments. Accordingly, as of January 1, 2019, the documentation required under IFRS with regards to this further differentiation of expected cash flows (i.e. the risk management objectives) will also be revised for the major part of the already designated hedge relationships for foreign currency risk although there is no change in the overall Group risk management strategy. This results in a formal discontinuation of existing hedge relationships as described in the methods applied in preparation of the financial statements and immediate redesignation of new hedge relationships according to the revised differentiation. The accumulated hedging gains/losses in equity as of December 31, 2018, subject to redesignation remain in the other reserves for derivative financial instruments because the hedged future cash flows are still expected to occur. Daimler does not expect any material impacts on the Group's profitability, liquidity and capital resources or financial position.

In 2018, the development of the value at risk from foreign currency hedging was mainly driven by decreases in foreign currency rate volatilities and hedge volumes.

The Group's investments in liquid assets or refinancing activities generally are not allowed to result in currency risk. Transaction risks arising from liquid assets or payables in foreign currencies that result from the Group's investment or refinancing on money and capital markets are generally hedged against currency risks at the time of investing or refinancing in accordance with Daimler's internal guidelines. The Group uses appropriate derivative financial instruments (e.g. cross currency interest rate swaps) to hedge against currency risk.

Since currency risks arising from the Group's investment or refinancing in foreign currencies and the respective hedging transactions principally offset each other, these financial instruments are not included in the value at risk calculation presented.

Effects of currency translation. For purposes of Daimler's Consolidated Financial Statements, the income and expenses and the assets and liabilities of subsidiaries located outside the euro zone are converted into euros. Therefore, period-to-period changes in average exchange rates may cause translation effects that have a significant impact on, for example, revenue, segment results (EBIT) and assets and liabilities of the Group. Unlike exchange rate transaction risk, exchange rate translation risk does not necessarily affect future cash flows. The Group's equity position reflects changes in book values caused by exchange rates. In general, Daimler does not hedge against exchange rate translation risk.

Interest rate risk

Daimler uses a variety of interest rate sensitive financial instruments to manage the liquidity needs of its day-to-day operations. A substantial volume of interest rate sensitive assets and liabilities results from the leasing and sales financing business operated by the Daimler Financial Services segment. The Daimler Financial Services companies enter into transactions with customers that primarily result in fixed-rate receivables. Daimler's general policy is to match funding in terms of maturities and interest rates wherever economically feasible. However, for a limited portion of the receivables portfolio in selected and developed markets, the Group does not match funding in terms of maturities in order to take advantage of market opportunities. As a result, Daimler is exposed to risks due to changes in interest rates.

An asset/liability committee consisting of members of the Daimler Financial Services segment and the Corporate Treasury department manages the interest rate risk relating to Daimler's leasing and financing activities by setting targets for the interest rate risk position. The Treasury Risk Management department and the local Daimler Financial Services companies are jointly responsible for achieving these targets. As separate functions, the Treasury Controlling and the Daimler Financial Services Controlling & Reporting department monitors target achievement on a monthly basis. In order to achieve the targeted interest rate risk positions in terms of maturities and interest rate fixing periods, Daimler also uses derivative financial instruments such as interest rate swaps. Daimler assesses its interest rate risk position by comparing assets and liabilities for corresponding maturities, including the impact of the relevant derivative financial instruments.

Derivative financial instruments are also used in conjunction with the refinancing related to the automotive segments. Daimler coordinates the funding activities of the automotive and financial services businesses at the Group level.

Table 7 F.99 shows the period-end, high, low and average value at risk figures of the interest rate risk for the 2018 and 2017 portfolios of interest rate sensitive financial instruments and derivative financial instruments of the Group, including the financial instruments of the leasing and sales financing business. In this respect, the table shows the interest rate risk regarding the unhedged position of interest rate sensitive financial instruments. The average values have been computed on an end-of-quarter basis.

In the course of 2018, changes on the value at risk of interest rate sensitive financial instruments were primarily determined by the development of interest rate volatilities.

Hedge accounting. When designating derivative financial instruments, a hedge ratio of 1 is generally applied. The respective volumes, interest curves and currencies of the hedged item and the hedging instrument as well as maturity dates are matched. In the case of combined derivative financial instruments for interest currency hedges, the cross currency basis spread is not designated into the hedge relationship, but deferred as a hedging cost in other comprehensive income and recognized in profit or loss pro rata over the hedge term. The Group ensures an economic relationship between the underlying transaction and the hedging instrument by ensuring consistency of interest rates, maturity terms and nominal amounts. The effectiveness of the hedge is assessed at the beginning and during the economic relationship using the hypothetical derivative method. Possible sources of ineffectiveness of the hedge relationship are:

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

Commodity price risk

Daimler is exposed to the risk of changes in commodity prices in connection with procuring raw materials and manufacturing supplies used in production. A small portion of the raw material price risk, primarily relating to forecasted procurement of certain metals, is mitigated with the use of derivative financial instruments.

For precious metals, central commodity management shows an unhedged position of 39% of the forecasted commodity purchases at year-end 2018 for calendar year 2019. The corresponding figure at year-end 2017 was 38% for calendar year 2018.

Table [7 F.99](#) shows the period-end, high, low and average value at risk figures of the commodity price risk for the 2018 and 2017 portfolio of derivative financial instruments used to hedge raw material price risk. Average exposure has been computed on an end-of-quarter basis. The transactions underlying the derivative financial instruments are not included in the value at risk presentation. See also table [7 F.94](#) at December 31, 2018 according to IFRS 9 and table [7 F.95](#) at December 31, 2017 according to IAS 39 for the nominal values of derivative commodity price hedges at the balance sheet date.

In 2018, the value at risk of commodity derivatives was close to the previous year's level due to offsetting developments of volatilities and hedge volume.

Hedge accounting. When designating currency derivative financial instruments, Daimler generally applies a hedge ratio of 1. The respective volumes and parameters relevant for the valuation of the hedged item and the hedging instrument as well as maturity dates are matched. The Group ensures an economic relationship between the hedged item and the hedging instrument by ensuring consistency of volumes, parameters relevant for valuation and maturity terms. Effectiveness is assessed at initial designation and during the hedge term. Possible sources of ineffectiveness of the hedge relationship are:

- Effects of the credit risk on the fair value of the derivative instrument in use which are not reflected in the change in the hedged commodity price risk.
- Changes in the timing of the hedged transactions.

Equity price risk

Daimler predominantly holds investments in shares of companies which are classified as long-term investments, some of which are accounted for using the equity method, such as BAIC Motor. These investments are not included in a market risk assessment of the Group.

34. Segment reporting

Reportable segments

The reportable segments of the Group are Mercedes-Benz Cars, Daimler Trucks, Mercedes-Benz Vans, Daimler Buses and Daimler Financial Services. The segments are largely organized and managed separately, according to nature of products and services provided, brands, distribution channels and profile of customers.

The vehicle segments develop and manufacture passenger cars, trucks, vans and buses. The Mercedes-Benz Cars segment comprises premium vehicles of the Mercedes-Benz brand including the brands Mercedes-AMG and Mercedes-Maybach, and small cars under the smart brand, as well as the brand Mercedes me. Electric products will be marketed under the EQ brand. Daimler Trucks distributes its trucks under the brand names Mercedes-Benz, Freightliner, Western Star, FUSO and BharatBenz. Furthermore, buses under the brands Thomas Built Buses and FUSO are included in the Daimler Trucks range of products. The vans of the Mercedes-Benz Vans segment are primarily sold under the brand name Mercedes-Benz and also under the Freightliner brand. Daimler Buses sells completely built-up buses under the brand names Mercedes-Benz and Setra. In addition, Daimler Buses produces and sells bus chassis. The vehicle segments also sell related spare parts and accessories.

The Daimler Financial Services segment supports the sales of the Group's vehicle segments worldwide. Its product portfolio primarily comprises tailored financing and leasing packages for end-customers and dealers, brokering of automotive insurance and banking services. The segment also provides services such as fleet management in Europe, which primarily takes place through the Athlon brand. Furthermore, Daimler Financial Services is active in the area of innovative mobility services.

Management and reporting system

The Group's management reporting and controlling systems principally use accounting policies that are the same as those described in [Note 1](#) in the summary of significant accounting policies according to IFRS.

The Group's management reporting and controlling systems measure of segment profit or loss is referred to as "EBIT." EBIT comprises gross profit, selling and general administrative expenses, research and non-capitalized development costs, other operating income/expense, and our share of profit/loss on equity-method investments, net, as well as other financial income/expense, net. Although amortization of capitalized borrowing costs is included in cost of sales, it is not included in EBIT.