

Daimler Finance North America LLC

Annual Report 2016

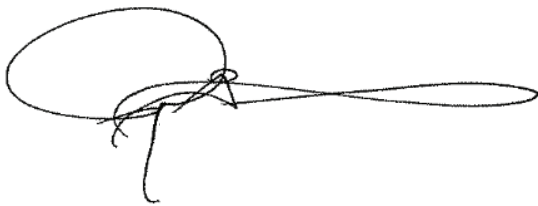
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Responsibility Statement

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

Park Ridge, NJ (USA) April 28, 2017

A stylized handwritten signature in black ink, featuring a large loop at the top and a long horizontal stroke extending to the right.

Ruben Simmons
President & Chief Executive Officer

A handwritten signature in black ink that reads "Gianni P. Gatto" in a cursive script.

Gianni P. Gatto
Chief Accounting Officer

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Management Report

General

Daimler Finance North America LLC (“DFNA” or the “Company”) is a wholly-owned subsidiary of Daimler North America Corporation (“DNA”), which is in turn a wholly-owned subsidiary of Daimler AG (“DAG” or “Daimler”).

DFNA accesses U.S. and foreign capital markets to raise funds, which it lends to DNA through a consolidated funding and cash management system. As such, it has relationships with other subsidiaries of DAG. DAG issued full and unconditional guarantees for DFNA’s obligations incurred under its outstanding notes and bonds program and commercial paper program. DFNA and DNA entered into an intercompany loan agreement which is intended to mirror DFNA’s external borrowings such that interest expense with third parties is offset by corresponding interest income from DNA.

This document contains forward looking statements that reflect our current views about future events. The words “anticipate,” “assume,” “believe,” “estimate,” “expect,” “intend,” “may,” “can,” “could,” “plan,” “project,” “should” and similar expressions are used to identify forward-looking statements. These statements are subject to many risks and uncertainties, including:

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

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

The percentages in the following discussion were computed using exact dollar amounts and numbers. Some of those percentages may, therefore, not reflect the ratio between the rounded amounts presented below.

Earnings

Interest Income

Interest income increased to \$640,166 in 2016 from \$570,447 in 2015, an increase of 12%. The increase was caused by a higher average balance of receivables from related parties in 2016 compared to 2015.

Interest Expense

Interest expense increased to \$640,166 in 2016 from \$570,447 in 2015, an increase of 12%. The increase was caused by a higher average balance of external borrowings in 2016 compared to 2015.

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Guarantee Fees

Guarantee fees charged by DAG (12.5 bp on outstanding external debt) were \$31,261 in 2016, compared to \$29,039 in 2015; the Company's outstanding balances of external borrowings were higher on average in 2016 compared to 2015.

Other Financial Income (Expense), Net

The other financial income (expense), net was \$11 in 2016 compared to \$(15) in 2015, due to foreign exchange gains from IC cash balances.

Administrative Expenses

Administrative expenses were \$3,090 and \$3,194 for 2016 and 2015, respectively.

Reimbursement of Expenses from DNA

DFNA and DNA are parties to an agreement where DNA reimburses DFNA for any and all expenses incurred in connection with the administration of DFNA's notes and bonds program and commercial paper program. The reimbursement of net expenses from DNA amounted to \$34,340 in 2016 and \$32,248 in 2015.

Net Income

Net income was zero in both 2016 and 2015.

Financial Position

Total assets were \$26,911,610 at December 31, 2016 compared to \$25,972,838 at December 31, 2015, an increase of \$938,772 or 4%. The increase is primarily due to issuances of loans exceeding the repayments of loans in 2016.

Total liabilities were \$26,911,610 at December 31, 2016 compared to \$25,972,838 at December 2015, an increase of \$938,772 or 4%, reflecting the issuances of notes and bonds exceeded the repayments of notes and bonds in 2016.

Liquidity and Capital Resources

In the ordinary course of business, the Company issues notes and bonds and commercial paper in the US and foreign capital markets and lends the proceeds to DNA. In 2016, \$5,980,789 new notes and bonds and commercial paper were issued, while there were \$12,191,329 new issuances in 2015. The Company had neither cash nor cash equivalents as of December 31, 2016 and 2015.

Risk Report

Many factors could directly and indirectly, through the close affiliation with DAG's affiliated companies, affect the Company's business, financial condition, and cash flows. The results of operations would not be affected due to the existing reimbursement agreements with DNA. The principal risks are described below.

Economic Risks

A slowdown in growth in the United states, high price volatility in raw-material markets, the political uncertainty in which of the measures announced during the election campaign are actually implemented by the new Trump administration in 2017 as well as further increases in interest rates by the central bank could have significant adverse effects on the Daimler business in the United States and, as a result, on the future financial position of the Company. However, if investment activity in the United States is more dynamic than previously assumed, this could result in substantially stronger growth.

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Industry Risks

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

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

Financial Risks

Changes in interest rates may have substantial adverse effects on the Company's cash flows. Adverse effects may also arise from downgrades of the long-term debt ratings of the Company's ultimate parent company, DAG, and the ability of the Company to issue debt in the US and European markets. Lower demand for the Company's debt instruments could increase the borrowing costs or otherwise limit DFNA's ability to fund the Daimler operations in the US.

Note 7 to the Company's financial statements describes the risk management strategies employed by the Company to address such risks.

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

Corporate Governance

Corporate Bodies

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

Compliance

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

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Risk Management and Internal Control

The risk management system is an integral part of the overall planning, controlling and reporting process. Its goal is to enable the Company's management to recognize significant risks at an early stage and to initiate appropriate countermeasures in a timely manner (see note 7).

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

Accounting Principles

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

Outlook

Management expects net income and equity to be zero in 2017. This expectation is based on the assumption of a stable economic development and continuation of the Company's business model.



KPMG LLP
Suite 1900
150 West Jefferson
Detroit, MI 48226

Independent Auditors' Report

The Board of Directors
Daimler Finance North America LLC:

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

KPMG LLP

Detroit, Michigan
April 28, 2017

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Statement of Comprehensive Income

	Note	Year ended December 31,	
		2016	2015
Interest income		640,166	570,447
Interest expense – third parties		(640,166)	(570,447)
Guarantee fees – DAG	4	(31,261)	(29,039)
Net interest expense		(31,261)	(29,039)
Other financial income (expense)	5	11	(15)
Administrative expenses	4	(3,090)	(3,194)
Reimbursement of expenses from DNA	4	34,340	32,248
Net income		-	-
Other comprehensive income		-	-
Total comprehensive income		-	-

The accompanying notes on pages 13 to 22 are an integral part of the financial statements.

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Statement of Financial Position

	Note	December 31,	
		2016	2015
Assets			
Receivables from related parties	4	21,173,603	20,669,160
Total non-current assets		21,173,603	20,669,160
Receivables from related parties	4	5,517,037	5,091,896
Accrued interest income from DNA	6	220,970	211,782
Total current assets		5,738,007	5,303,678
Total assets		26,911,610	25,972,838
Equity and liabilities			
Total equity		-	-
Notes and bonds payable	6	21,173,603	20,669,160
Total non-current liabilities		21,173,603	20,669,160
Payables to related parties	4	19,248	19,728
Other provisions		120	128
Notes and bonds payable	6	5,497,669	4,547,207
Commercial paper	6	-	524,833
Accrued interest expense	6	220,970	211,782
Total current liabilities		5,738,007	5,303,678
Total liabilities		26,911,610	25,972,838
Total equity and liabilities		26,911,610	25,972,838

The accompanying notes on pages 13 to 22 are an integral part of the financial statements.

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Statement of Changes in Equity

	Member's Investment	Retained Earnings	Other Reserves	Total Equity
Balance at January 1, 2015	-	-	-	-
Net income	-	-	-	-
Total comprehensive income	-	-	-	-
Transactions with members directly recognized in equity	-	-	-	-
Balance at December 31, 2015	-	-	-	-
Net income	-	-	-	-
Total comprehensive income	-	-	-	-
Transactions with owners directly recognized in equity	-	-	-	-
Balance at December 31, 2016	-	-	-	-

The accompanying notes on pages 13 to 22 are an integral part of the financial statements.

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Statement of Cash Flows

	Note	Year ended December 31,	
		2016	2015
Net income		-	-
Adjustments for			
FX gains/losses	5	(11)	15
Non-cash interest expense		24,116	22,259
Changes in			
Receivables from related parties	4	(929,573)	(6,134,598)
Payables to related parties	4	(480)	4,062
Other provisions		(8)	50
Net cash used in operating activities		(905,956)	(6,108,212)
Net cash provided by investing activities		-	-
Repayments of notes and bonds payable	6	(4,550,000)	(3,550,000)
Issuances of notes and bonds payable	6	5,980,789	9,464,161
Repayments of commercial paper	6	(524,833)	(2,533,117)
Issuances of commercial paper	6	-	2,727,168
Net cash provided by financing activities		905,956	6,108,212
Net increase/decrease in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the period		-	-
Cash and cash equivalents at the end of the period		-	-
Supplemental information¹:			
Interest paid		(630,978)	(537,909)
Interest received		630,978	537,909

¹ All cash flows from interest are included in cash used in operating activities. The Company does not have any cash flows from income taxes and dividends.

The accompanying notes on pages 13 to 22 are an integral part of the financial statements.

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Notes to the Financial Statements

1. General information

Daimler Finance North America LLC (“DFNA” or the “Company”) is a limited liability company organized under the laws of Delaware. The Company is a wholly-owned subsidiary of Daimler North America Corporation (“DNA”), which is in turn a wholly-owned subsidiary of Daimler AG (“DAG”). Its registered office is located at 1209 Orange Street, Wilmington, Delaware 19801, USA.

DFNA accesses US and foreign capital markets to raise funds, which it lends to DNA through a consolidated funding and cash management system.

In the event of non-payment by DFNA, DAG irrevocably and unconditionally guarantees the debt holders the payment of the amounts corresponding to the principal of, and interest on the respective notes and bonds and commercial paper as they become due. DFNA and DNA entered into intercompany loan agreements which are intended to mirror DFNA’s external borrowings such that interest expense with third parties is offset by corresponding interest income from DNA. DFNA has no reportable segments.

On April 28, 2017, the Board of Directors of DFNA authorized the financial statements for issue.

2. Basis of preparation

(a) Applied IFRS

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

(b) IFRSs issued but not yet adopted

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

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

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

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

Other IFRSs issued but not required to be adopted are not expected to have a significant impact on the Company’s financial position and performance.

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(c) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(d) Functional and presentation currency

These financial statements are presented in U.S. dollars (“\$”), which is the Company’s functional currency. The Company reports the financial information in thousands of U.S. dollars, except where indicated otherwise.

(e) Presentation in the statement of financial position

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

(f) Accounting estimates and assessments

The preparation of financial statements requires management to make estimates, assessments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Management’s most important estimates relate to the fair values of the Company’s notes and bonds payable and receivables from DNA. Refer to Note 6 for additional information.

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

3. Summary of significant accounting policies

(a) Interest income and expense

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

(b) Foreign currency translation

Transactions in foreign currency are translated at the relevant foreign exchange rates prevailing at the transaction date. In subsequent periods, monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into U.S. dollars at the spot exchange rate at that date. The gains and losses from such remeasurement are recognized in the statement of comprehensive income in the line “other financial income (expense), net” and net to \$11 in 2016 compared to \$(15) in 2015.

(c) Income taxes

The Company is a single member limited liability company. As such, the Company is not a taxable entity for federal and state income tax purposes. Rather, taxable income or loss is included in its member's federal and state income tax returns and any resulting income taxes are paid by the member.

(d) Transactions with related parties

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

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(e) Financial assets

Financial assets consist primarily of receivables from DNA, which arise from intercompany loans. These receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition at fair value, they are subsequently carried at amortized cost using the effective interest method less any impairment losses, if necessary. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired. Interest effects on the application of the effective interest method are also recognized in profit or loss.

(f) Financial liabilities

Financial liabilities include notes and bonds payable, commercial paper and accrued interest. New notes and bonds and commercial paper issuances are recognized at fair value based on quoted prices on the day of issuance. After initial recognition at fair value, they are subsequently measured at amortized cost using the effective interest method.

4. Transactions with related parties

The following table sets forth amounts receivable from related parties:

	December 31,	
	2016	2015
Daimler North America Corporation	26,687,813	25,757,662
Daimler North America Corporation (Accrued Interest)	220,970	211,782
Daimler North America Finance Corporation (DNAF)	2,827	3,394
Total	26,911,610	25,972,838

The receivables bear interest at fixed and variable rates ranging from 1.1% to 8.5%, with a weighted average interest rate of 2.4%. Variable rates are re-priced on a 3 month basis. Interest income is recorded using the effective interest method. The Company recorded interest income from DNA of \$640,155 in 2016 and \$570,442 in 2015. The Company holds cash receivables with DNAF, the US InHouse Bank, and recorded interest income of \$11 in 2016 and \$5 in 2015. As of December 31, 2016, aggregate annual maturities of receivables from related parties were as follows:

Year	Amount
2017	5,738,007
2018	6,040,754
2019	4,486,597
≥2020	10,646,252
Total	26,911,610

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

Year	Amount
2016	5,303,678
2017	5,492,320
2018	6,034,270
≥ 2019	9,142,570
Total	25,972,838

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The following table sets forth amounts payable to related parties which result from guarantee fees:

	December 31,	
	2016	2015
Daimler AG	19,248	19,728
Total	19,248	19,728

DFNA is charged fees for the full and unconditional guarantees on its outstanding notes and bonds and commercial paper programs by DAG. These fees are calculated as a set percentage of the outstanding notes and bonds and commercial paper at the end of each month at any given year. These guarantee fees were \$31,261 and \$29,039 for the years ended December 31, 2016 and 2015, respectively.

DFNA is charged for administrative overhead expenses by DNA. These expenses were \$3,090 and \$3,194 for the years ended December 31, 2016 and 2015, respectively, and are included in administrative expenses in the statement of comprehensive income.

DFNA and DNA are also parties to agreements pursuant to which DNA reimburses DFNA for any and all expenses incurred in connection with the administration of DFNA's notes and bonds and commercial paper programs. These reimbursements are recognized in income.

There are no related party transactions with key management personnel as defined in IAS 24.

5. Other financial income (expense), net

Other financial income (expense), net is comprised of the following:

	2016	2015
Result of foreign exchange transactions - gains (losses)	11	(15)
Total	11	(15)

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6. Financial instruments

(a) Carrying amounts and fair values of financial instruments

The following table shows the carrying amounts and fair values of the Company's financial instruments. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Given the varying influencing factors, the reported fair values can only be viewed as indicators of the prices that may actually be achieved on the market. The fair values of financial instruments were calculated on the basis of market information available on the balance sheet date.

	December 31, 2016		December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and receivables				
Receivables from related parties	26,690,640	27,473,098	25,761,056	26,349,183
Accrued interest income from DNA	220,970	220,970	211,782	211,782
Total loans and receivables	26,911,610	27,694,068	25,972,838	26,560,965
Total financial assets	26,911,610	27,694,068	25,972,838	26,560,965
Financial liabilities at amortized cost				
Notes and bonds payable	26,671,272	27,453,729	25,216,367	25,804,494
Commercial paper	-	-	524,833	524,833
Payables to related parties	19,248	19,248	19,728	19,728
Accrued interest expense	220,970	220,970	211,782	211,782
Total financial liabilities at amortized cost	26,911,490	27,693,947	25,972,710	26,560,837
Total financial liabilities	26,911,490	27,693,947	25,972,710	26,560,837

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

	December 31, 2016				December 31, 2015			
	Total	Level 1 ¹	Level 2 ²	Level 3 ³	Total	Level 1 ¹	Level 2 ²	Level 3 ³
Loans and receivables	27,694,068	-	27,694,068	-	26,560,965	-	26,560,965	-
Financial liabilities measured at amortized cost	27,693,947	24,967,498	2,726,449	-	26,560,837	-	26,560,837	-
thereof notes and bonds	27,453,729	24,967,498	2,486,231	-	25,804,494	-	25,804,494	-
thereof other financial liabilities	240,218	-	240,218	-	756,343	-	756,343	-

¹ Fair value measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

² Fair value measurement based on inputs for the asset or liability that are observable on active markets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

³ Fair value measurement based on inputs for the asset or liability that are not observable market data.

The fair values of financial instruments were calculated on the basis of market information available at the reporting date using the methods and assumptions presented below. Due to the short nature of accrued interest income, interest expense, and payables to related parties, management assumes that their fair values are equal to the carrying amounts.

Receivables from related parties

DFNA intends to hold receivables from DNA to maturity. None of these receivables have been derecognized or are impaired, and the Company does not believe that these receivables are at risk of being impaired. The Company believes that the fair value of the receivables from DNA approximates the fair value of the external notes and bonds payable and commercial paper at December 31, 2016 and 2015, as the terms and interest rates of the receivables from DNA are intended to mirror DFNA's external borrowings such that interest expense and debt maturities with third parties are offset by corresponding interest income and loan maturities from DNA.

Notes and bonds payable

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

Commercial paper

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

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(b) Notes and bonds payable

DFNA's obligations under the notes and bonds program are fully and unconditionally guaranteed by its ultimate parent company, DAG. Contemporaneously, DFNA and DNA entered into an agreement according to which DNA reimburses DFNA for any and all fees incurred by DFNA in the course of the administration of the program.

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

	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount
US-Dollar Notes and Bonds					
Medium Term Note	USD	2.950%	2017	600,000	599,928
Medium Term Note	USD	Libor+0.55%	2017	150,000	149,991
Medium Term Note	USD	Libor+0.30%	2017	250,000	249,969
Medium Term Note	USD	Libor+0.35%	2017	700,000	699,912
Medium Term Note	USD	1.125%	2017	800,000	799,837
Medium Term Note	USD	2.400%	2017	500,000	499,865
Medium Term Note	USD	1.375%	2017	1,150,000	1,148,796
Medium Term Note	USD	Libor+0.34%	2017	350,000	349,891
Medium Term Note	USD	1.600%	2017	450,000	449,723
Medium Term Note	USD	Libor+0.71%	2017	550,000	549,757
Medium Term Note	USD	1.875%	2018	1,000,000	998,408
Medium Term Note	USD	Libor+0.42%	2018	500,000	499,611
Medium Term Note	USD	1.650%	2018	1,000,000	998,819
Medium Term Note	USD	Libor+0.45%	2018	250,000	249,771
Medium Term Note	USD	1.650%	2018	800,000	798,731
Medium Term Note	USD	Libor+0.86%	2018	250,000	249,802
Medium Term Note	USD	2.375%	2018	1,250,000	1,247,846
Medium Term Note	USD	2.000%	2018	1,000,000	997,766
Medium Term Note	USD	1.500%	2019	1,500,000	1,495,528
Medium Term Note	USD	Libor+0.74%	2019	250,000	249,581
Medium Term Note	USD	1.750%	2019	1,100,000	1,096,432
Medium Term Note	USD	Libor+0.62%	2019	400,000	399,244
Medium Term Note	USD	2.250%	2019	750,000	747,101
Medium Term Note	USD	2.250%	2019	500,000	498,711
Medium Term Note	USD	2.250%	2020	1,250,000	1,246,016
Medium Term Note	USD	2.450%	2020	1,300,000	1,295,891
Medium Term Note	USD	2.125%	2020	400,000	397,876
Medium Term Note	USD	2.125%	2020	100,000	100,002
Medium Term Note	USD	2.700%	2020	850,000	847,155
Medium Term Note	USD	2.875%	2021	650,000	648,051
Medium Term Note	USD	3.875%	2021	750,000	744,555
Medium Term Note	USD	2.000%	2021	1,250,000	1,246,661
Medium Term Note	USD	2.200%	2021	1,000,000	997,294
Medium Term Note	USD	3.250%	2024	500,000	495,210
Medium Term Note	USD	3.300%	2025	650,000	647,113
Medium Term Note	USD	3.500%	2025	500,000	496,601
Bond	USD	8.500%	2031	1,500,000	1,483,827
Total US-Dollar Notes and Bonds				26,750,000	26,671,272
Total					26,671,272

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(c) Commercial paper

In February 2011, DFNA entered into a \$3,000,000 private placement of a commercial paper program. The commercial paper balance was \$0 at December 31, 2016 compared to \$524,833 at December 31, 2015. DFNA's obligations under the commercial paper program are fully and unconditionally guaranteed by its ultimate parent company, DAG.

7. Management of financial risks

(a) Introduction

The global nature of the Daimler businesses in the US exposes DFNA indirectly to the risks listed below:

- credit risk
- liquidity risk
- finance market risks

However, the resulting effects of these risks on the Company's financial position, cash flows and profitability are all offset by the existing reimbursement agreements between DFNA and DNA as well as the unconditional guarantee issued by DAG for DFNA's outstanding notes and bonds and commercial paper. As a result, the Company is exposed to DNA's, and indirectly to its ultimate parent DAG's, intent and ability to effect the repayment of these receivables and honor the unconditional guarantee.

This note presents information about the Company's exposure to each of the above risks, and the objectives, policies and processes for measuring and managing risk. As part of its policies and processes for managing and measuring, if necessary, these risks, the Company monitors DAG's liquidity position. DAG's financial statements are publicly available.

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

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

DAG's ratings as of 2015 were as follow:

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

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(b) General information on financial risks

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

(c) 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 Company's assets consist primarily of receivables from DNA. As a result, the Company is exposed to DNA's, and indirectly to its ultimate parent DAG's, intent and ability to effect the repayment of these receivables. The maximum exposure to credit risk at the reporting date from receivables is equal to the carrying amount, which is equal to the total assets of the Company. As part of its policies and processes for managing and measuring, if necessary, the Company's exposure to credit risk, the Company monitors DAG's liquidity position.

(d) Liquidity risk

Liquidity risk encompasses the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities in full when due. DFNA's source of liquidity is its external borrowings. The funds are primarily used to finance working capital and capital expenditure requirements as well as the cash needs of the lease and financing business of the DNA subsidiaries.

Depending on its cash needs and market conditions, DFNA issues bonds and notes and commercial paper in various currencies. Adverse changes in the capital markets could increase DFNA's funding costs and limit the Company's financial flexibility.

In September 2013, the Company, together with DAG and other DAG subsidiaries, entered into a Euro 9 billion credit facility for a five year term and two extension options of one year in total with a syndicate of international banks. In 2014, DAG exercised the option to extend the credit line by a further year until 2019. In 2015, DAG exercised the second extension option to extend the credit line by a further year until 2020. This facility provides funds for general corporate purposes. Prior approval from DAG is required before the Company can access this credit line. At the end of 2016 and through the issuance date of these financial statements, this facility was not utilized by the Company.

The liquidity runoff shown in the following table provides an insight into how the liquidity situation of the Company is affected by the cash flows of financial liabilities as of December 31, 2016. It comprises a runoff of the undiscounted contractual principal and interest cash outflows of the financing liabilities and undiscounted payments from other financing liabilities.

	Total	2017	2018	2019	2020	2021	≥ 2022
Notes and bonds – principal	26,750,000	5,500,000	6,050,000	4,500,000	3,900,000	3,650,000	3,150,000
Notes and bonds – interest	3,634,428	631,066	538,663	455,818	335,700	268,106	1,405,075
Payables to related parties	19,248	19,248	-	-	-	-	-
Total	30,403,676	6,150,314	6,588,663	4,955,818	4,235,700	3,918,106	4,555,075

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The liquidity runoff as of December 31, 2015 is shown in the following table.

	Total	2016	2017	2018	2019	2020	≥2021
Notes and bonds – principal	25,300,000	4,550,000	5,500,000	6,050,000	1,250,000	3,400,000	4,550,000
Notes and bonds – interest	3,804,420	612,863	515,425	425,063	341,500	283,388	1,626,181
Commercial paper	525,000	525,000	-	-	-	-	-
Payables to related parties	19,728	19,728	-	-	-	-	-
Total	29,649,148	5,707,591	6,015,425	6,475,063	1,591,500	3,683,388	6,176,181

Future cash flows for variable rate instruments are estimated using forward rates.

(e) Finance market risks

Finances market risks are the risks that changes in market prices, such as interest rates and foreign exchange rates, will affect the Company’s income or the value of its financial instruments. The objective of finance market risks management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The global nature of the Daimler businesses in the US exposes DFNA indirectly to market risks resulting from foreign currency exchange rates and changes in interest rates. However, the resulting effects of these market risks on the Company’s financial position, cash flows and profitability are all offset by the existing reimbursement agreements between DFNA and DNA. DFNA maintains risk management control systems independent of Corporate Treasury.

8. Capital management

DFNA is subject to the capital management at the DAG parent level. DAG uses net assets as its basis for capital management. Net assets are managed on a divisional level at DAG rather than at a regional or company level. Accordingly, the net assets of the Company are not subject to review for capital management, but rather are reviewed as part of the net assets of the DAG divisions to which Company net assets are allocated.

The Company is part of the worldwide financial management that is performed for all Daimler Group entities by DAG’s Corporate Treasury. Financial management operates within a framework of guidelines, limits and benchmarks; for DFNA, these are described in more detail in note 7.

9. Events after the reporting period

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

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