

Mercedes-Benz Financial Services USA LLC and Subsidiaries

(A Wholly Owned Subsidiary of Mercedes-Benz North America Corporation)

Unaudited Interim Consolidated Financial Statements September 30, 2023 and 2022

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Unaudited Interim Consolidated Statement of Financial Position (In millions of U.S. dollars)

	September 30, 2023	December 31, 2022
Assets		
Cash and cash equivalents	42	82
Receivables from affiliated companies	30	16
Trade receivables	8	291
Returned and repossessed vehicle inventory	84	67
Finance receivables, net	22,473	20,057
Vehicles and equipment leased, net	15,582	16,528
Other assets	560	634
Total assets	38,779	37,675
Liabilities and Equity		
Trade payables, provisions, and other liabilities	241	241
Trade payables to affiliated companies	29	32
Financing liabilities	9,361	8,531
Payables to affiliated companies	25,731	25,115
Deferred income	926	856
Deferred tax liabilities	677	1,065
Total liabilities	36,965	35,840
Equity	1,814	1,835
Total liabilities and Equity	38,779	37,675

Unaudited Interim Consolidated Statements of Income (In millions of U.S. dollars)

	Nine Months Ended September 30,	
	2023	2022
Retail finance receivables and finance leases	543	447
Wholesale finance receivables and other	360	129
Vehicles and equipment leased – rents and fees	2,902	3,249
Remarketing revenue	4,234	5,015
Other income	32	30
Total finance revenue and other income	8,071	8,870
Interest expense	(744)	(348)
Depreciation on vehicles and equipment leased	(2,307)	(2,557)
Provision for credit losses	(161)	(77)
Remarketing expense	(4,232)	(5,011)
Other financial expense	(2)	(6)
Selling expenses	(158)	(134)
General administrative expenses	(84)	(70)
Total Expenses	(7,688)	(8,203)
Profit before income taxes	383	667
Income tax benefit/(expense)	(109)	(180)
Profit for the period	274	487

Unaudited Interim Consolidated Statements of Changes in Equity (In millions of U.S. dollars)

	2023	2022
Contributed capital:		
Balance at beginning of year	867	867
Balance at September 30	867	867
Retained earnings:		
Balance at beginning of year	968	1,183
Profit for the period	274	487
Dividend	(260)	(800)
Other Comprehensive income/loss after taxes	(35)	83
Balance at September 30	947	953
Total equity	1,814	1,820

Unaudited Interim Consolidated Statements of Cash Flows (In millions of U.S. dollars)

	Nine months ended September 30,	
	2023	2022
Operating activities:		
Net income	274	487
Reconciliation of net income to net cash provided by(used in) operating activities		
Depreciation and amortization	(481)	(302)
Finance receivables	(2,432)	(485)
Proceeds from disposal of operating lease assets	1,440	3,580
Provision for credit losses	17	81
Deferred income tax expense	(389)	(64)
Net change in other assets	(35)	421
Net change in other liabilities	(3)	287
All other operating activities	417	744
Net cash provided by(used in) operating activities:	(1,192)	4,749
Investing activities:		
Additions to property, plant and equipment	-	10
Net cash provided by investing activities	-	10
Financing activities:		
Repayment of short-term borrowings	(677)	(3,026)
Net change in demand notes	81	(388)
Net change in long-term debt	2,042	(667)
Dividends to parent company	(260)	(800)
All other financing activities	(34)	83
Net cash provided by (used in) financing activities	1,152	(4,798)
Change in cash and cash equivalents	(40)	(39)
Cash and cash equivalents at beginning of year	82	113
Cash and cash equivalents at September 30	42	74

Notes to Unaudited Interim Consolidated Financial Statements

1. Significant Accounting Policies

General information

Mercedes-Benz Financial Services USA LLC (MBFS USA or the Company) is a single member LLC organized under the laws of the State of Delaware. MBFS USA is a wholly-owned subsidiary of Mercedes-Benz North America Corporation (MBNAC). MBNAC is a wholly-owned subsidiary of Mercedes-Benz Capital Nederland B.V. (MBCN), which is a wholly-owned subsidiary of Mercedes-Benz Group AG (MBGAG), a publicly held corporation organized under the laws of the Federal Republic of Germany. MBFS USA's registered office is located at 35555 West 12 Mile Rd, Suite 100, Farmington Hills, MI 48330.

MBFS USA is a financial services organization that principally provides automotive financing to Mercedes-Benz dealers (an entity involved in the sale or lease of new or used vehicles that has entered into a franchise agreement with Mercedes-Benz USA) and their customers, including retail and lease financing for cars and vans, dealer inventory, and other financing needs. Financing operations consist of retail installment and lease contracts, wholesale financing, and capital loans to dealers. The principal market for the Company's automotive financial products and services is the United States.

The interim consolidated financial statements of MBFS USA are presented in U.S. dollars (\$) and has been rounded to the nearest million, unless indicated otherwise.

Changed the name after the spin-off of commercial vehicles business

On October 1, 2021, the Extraordinary General Meeting approved the change of name from Daimler AG to Mercedes-Benz Group AG. The entry in the Commercial Register took place on February 1, 2022. For this reason, in addition to the name Mercedes-Benz Group AG, the name Daimler AG (DAG) is also used here, depending on the respective facts and time.

Basis of Preparation

(a) Applied IFRSs

The interim consolidated financial statements of MBFS USA and its subsidiaries have been prepared using accounting practices permitted by state licensing agencies, of which the recognition and measurement principles are consistent with International Financial Reporting Standards (IFRS) and related interpretations as issued by the International

Accounting Standards Board (IASB) applicable as of and for the periods ended September 30, 2023 and September 30, 2022. These accounting practices do not include all the financial statement presentation and disclosure requirements of IFRS.

(b) IFRS issued and not yet adopted in the reporting period

New standards and interpretations to be applied in 2023 had no material impact on the interim consolidated financial statements in the reporting year.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued the standard IFRS 17 Insurance Contracts. IFRS 17 replaces the currently applicable IFRS 4. It establishes more transparency and comparability with regard to the recognition, measurement, presentation and disclosure of insurance contracts with the insurer. The application of IFRS 17 is mandatory for reporting periods beginning on or after 1 January 2023. Early adoption is permitted but the Mercedes-Benz Group has not done so. The

Mercedes-Benz Group currently does not expect any material impacts on the Group's profitability, liquidity and capital resources, and financial position due to the application of IFRS 17.

IFRS 16 Lease Liability in a Sale Leaseback Transaction

In September 2022, the IASB published Lease Liability in a Sale and Leaseback Transaction (Amendments to IFRS 16). The amendments specify how the subsequent measurement of the right-of-use asset and the lease liability for a seller-lessee in a sale and leaseback transaction is to be performed in accordance with IFRS 16. The changes are mandatory for years beginning on or after 1 January 2024. Earlier application is permitted, but not planned in the Mercedes-Benz Group. No significant effects on the profitability, liquidity and capital resources, and financial position are expected.

In addition, other standards were published which are not expected to have any significant impact on the interim Consolidated Financial Statements.

(c) Presentation

The Company has elected to present the interim consolidated statement of financial position in order of liquidity to provide more reliable and relevant information to the user since the Company does not supply goods or services within a clearly identifiable operating cycle.

(d) Measurement

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

(e) Principles of consolidation

The interim consolidated financial statements include the accounts of MBFS USA and its wholly owned subsidiaries, including special purpose entities (SPEs) created to support the Company's securitization programs. These SPEs are directly controlled by MBFS USA. Control exists if the parent company has the power of decision over a subsidiary based on voting rights or other rights, if it participates in positive and negative variable returns from a subsidiary, and if it can affect these returns by its power of decision.

As an additional funding source, MBFS USA transfers leases and finance receivables to SPEs in exchange for cash. MBFS USA principally retains significant risks of the transferred receivables. According to IAS 27, Consolidated and Separate Financial Statements, and the Standing Interpretations Committee (SIC) Interpretation 12, Consolidation – Special Purpose Entities, these SPEs have to be consolidated by MBFS USA. The transferred financial assets remain on MBFS USA's consolidated statement of financial position as part of finance receivables, net of vehicles and equipment leased, net.

The financial statements of the Company and its subsidiaries included in the interim consolidated financial statements have been prepared using uniform recognition and measurement principles. All significant intercompany accounts and transactions relating to the consolidated subsidiary and consolidated SPEs have been eliminated.

Accounting Policies

(a) Revenue recognition

Revenue, principally interest income, from finance receivables is recognized using the effective interest method. Certain direct incremental origination fees and costs are deferred and amortized to finance revenue over the contractual terms of the receivables using the effective interest method. Nonautomotive finance revenue is recognized monthly based on a pattern reflecting a constant periodic pre-tax return of the lessor's net investment in the finance lease.

Operating lease revenue is recorded on a straight-line basis over the periods of the lease contracts. Initial direct fees and costs as well as up-front payments related to operating leases are deferred and amortized on a straight-line basis over the terms of the leases. In addition, sales revenue is generated at the end of the lease contracts from the subsequent sale of the vehicles.

Agreements entered into with indirect subsidiaries of MBGAG provide for interest rate differentials and residual value support payments to the Company for certain Mercedes-Benz vehicle sale and lease programs. Interest rate differentials on finance receivables are earned on the effective interest method over the term of the receivables. Interest rate differentials on lease programs are recognized on a straight-line basis over the lives of the leases. Recognition of these support payments results in yields that approximate market yields. Residual value support payments on lease programs are billed to the applicable affiliated manufacturer for their share of the residual losses as they are incurred, which reduces the residual losses recognized. Finance receivables that are 60 days past due are placed on nonearning status. Nonautomotive assets are placed on nonearning status at the time the asset is deemed impaired.

(b) Income taxes

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

The Company and its subsidiaries are included in the consolidated U.S. income tax return of MBNAC. The Company is also included in certain unitary and combined state tax returns with MBNAC, and files separate returns in certain state and local tax jurisdictions.

The Company's provision for income tax expense is generally determined on a separate-return basis with certain adjustments pursuant to applicable tax sharing agreements. Under these various tax-sharing agreements with direct and indirect subsidiaries of MBGAG, U.S. income taxes have been settled substantially without regard to alternative minimum tax or limitations on utilization of net operating losses and foreign tax credits. The agreements provide for adjustments pertaining to certain tax expenses/benefits resulting from the Company's depreciation, and nonautomotive finance lease transactions. The Company's state tax sharing is based upon a pro-rata approach that utilizes the effective tax rates of MBNAC. The Company does not accrue or pay interest on intercompany tax balances that would not otherwise result in interest owed to taxing authorities. Intercompany receivables/payables related to income taxes are settled in accordance with the tax sharing agreements between the Company and MBNAC.

Deferred tax assets and liabilities are recognized for future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Measurement is based on the tax rates expected to be effective in the period in which an asset is realized or a liability is settled. For this purpose, the tax rates and tax rules are used which have been enacted or

substantively enacted at the reporting date. Deferred tax assets are recognized to the extent that taxable profit at the level of the relevant tax authority will be available for the utilization of the deductible temporary differences, and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Further, current income taxes include adjustments for uncertain tax payments or tax refunds for periods not yet assessed as well as interest and penalties on the underpayments of these taxes. Tax benefits resulting from uncertain income tax positions are recognized at the best estimate of the tax amount expected to be paid.

(c) Leasing

Leasing includes all contracts that transfer the right to use a specified asset for a stated period of time in return for a payment, even if the right to use such asset is not explicitly described in the contract.

Mercedes-Benz Trust is a lessor of products manufactured by MBGAG, principally passenger cars and vans. The accounting treatment associated with such leasing arrangements is dependent upon an evaluation of the risks and rewards of the leased asset, and whether the ownership of the asset is attributed to the lessee (finance lease) or to

the lessor (operating lease). Vehicles and equipment subject to operating leases are presented at (depreciated) cost of acquisition and are depreciated on a straight-line basis over the contract term of the leases in an amount necessary to reduce the asset to its estimated residual value at the end of the lease term. If these vehicles are subsidized, the subsidies are deducted from the cost of acquisition.

Certain nonautomotive finance leases qualify under SIC Interpretation 27 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease (SIC 27) as linked transactions. This interpretation provides a basis for accounting for a series of transactions that involve the legal form of a lease and can be linked as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole. These series of facts are closely interrelated, negotiated as a single transaction and take place concurrently or in a continuous sequence. As a result, the lessor has the right to offset the amounts owing under each of the leases and the intention to settle the rights and obligations under the leases on a net basis.

MBFS USA as lessee

According to IFRS 16, a lessee may elect, for leases with a lease term of 12 months or less (short-term leases) and for leases for which the underlying asset is of low value, not to recognize a right-of-use asset and a lease liability. MBFS USA applies both recognition exemptions. The lease payments associated with those leases are generally recognized as an expense on a straight-line basis over the lease term or another systematic basis if appropriate.

Right-of-use assets, which are included under property, plant and equipment, are measured at cost less any accumulated depreciation and, if necessary, any accumulated impairment. The cost of a right-of-use asset comprises the present value of the outstanding lease payments plus any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs and an estimate of costs to be incurred in dismantling or removing the underlying asset. In this context, MBFS USA also applies the practical expedient that the payments for non-lease components are generally recognized as lease payments. If the lease transfers ownership of the underlying asset to the lessee at the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the right-of-use asset is depreciated to the end of the useful life of the underlying asset. Otherwise, the right-of-use asset is depreciated to the end of the lease term.

Lease liabilities, which are assigned to financing liabilities, are measured initially at the present value of the lease payments.

The lease liabilities include the following lease payments:

- fixed payments including de facto 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.

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

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, which is based on risk-adjusted interest rates and determined for the respective lease terms and currencies. MBFS USA generally applies the incremental borrowing rate to discount lease payments. As the cash flow pattern of the reference interest rates (bullet bonds) does not correspond to the cash flow pattern of a lease contract (annuity), we use a duration adjustment in order to account for that difference.

Subsequent measurement of a lease liability includes the increase of the carrying amount to reflect interest on the lease liability and reducing (while affecting other comprehensive income) the carrying amount to reflect the lease payments made.

According to IFRS 16, the depreciation of right-of-use assets is recognized within functional costs. The interest due on the lease liability is a component of interest expense.

Residual values

The Company has significant investments in the residual values of its portfolio of vehicles under operating leases and nonautomotive finance leases. These residual values represent estimates of the fair value of the leased assets at the end of the contract terms and are initially recorded based upon industry estimates, adjusted for the Company's historical and projected experience, for the types of assets leased.

Changes to residual values for operating leases are recognized through additional depreciation on vehicles and equipment leased based on the Company's best estimate of vehicle fair value at lease termination. These assumptions and related additional depreciation may change based on market conditions. Residual values are reviewed at least quarterly to determine if there is an indication of impairment. If such indication exists, the asset's recoverable amount is estimated as the greater of its value in use or fair value less costs to sell. The Company determines value in use by discounting the estimated future cash flows resulting from the asset using a discount rate which reflects current market assessments and risks specific to the asset. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

The Company has a residual value risk-sharing agreement with Mercedes-Benz USA LLC (MBUSA), an affiliate. The Company only maintains reserves for disposal costs. Any losses will be the responsibility of MBUSA and all gross gains will be returned to MBUSA. The agreement is renewable annually.

Residual values for nonautomotive finance leases are reviewed at least semi-annually for impairment. If this review indicates that the carrying values are in excess of the assets' fair value, the effective-interest rate shall be recalculated from the inception of the leases using the revised assumptions. The change in the net investment balance will be adjusted based on the recalculated balances and is recognized as a loss on nonautomotive finance leases in the year the assumption is changed.

In connection with the review for impairment, the Company determines whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. In this case, the Company records a partial or an entire reversal of the impairment, and the carrying amount of the affected asset is increased to its recoverable amount. However, the increased carrying amount shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized in prior years.

Returned and repossessed vehicle inventories

Vehicle inventories are measured at the lower of cost and net realizable value. The net realizable value is the estimated selling price less any remaining costs to sell. The cost of inventories is generally based on the specific identification method and includes costs incurred in acquiring the inventories and bringing them to their existing location and condition.

(d) Financial instruments

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

Upon initial recognition, financial instruments are measured at fair value. For the purpose of subsequent measurement, financial instruments are allocated to one of the categories in IFRS 9 Financial Instruments (financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss).

Transaction costs directly attributable to acquisition or issuance are considered in determining the carrying amount if the financial instruments are not measured at fair value through profit or loss.

(e) Financial assets

Financial assets are primarily comprised of cash and cash equivalents, amounts due from affiliated companies, trade receivables, and finance receivables.

Financial assets that give rise to cash flows consisting only of payments of principal and interest are classified in accordance with the Group's business model for holding these instruments. Financial assets that are held in a business model with the objective to hold them until maturity and collect the contractual cash flows are measured at amortized cost. These business models are managed principally based on interest-rate structure and credit risk. If the business model comprises the intention to hold the financial assets to collect the contractual cash flows but expects to sell these financial assets if this is necessary, e.g. to fulfill a specific need for liquidity, then these instruments are measured at fair value through other comprehensive income. Financial assets that have only cash flows of solely principal and interest but are not held within one of the business models described above are measured at fair value through profit or loss.

Financial assets at amortized cost

Financial assets at amortized cost are non-derivative financial assets with contractual cash flows that consist solely of payments of principal and interest on the nominal amount outstanding and which are held with the aim of collecting the contractual cash flows, such as receivables from related parties or cash and cash equivalents (business model "hold to collect"). After initial recognition, financial assets at amortized cost are subsequently carried at amortized cost using the effective interest method less any loss allowances. Gains and losses are recognized in profit or loss when the financial assets at amortized cost are impaired or derecognized. Interest effects on the application of the effective interest method are also recognized in profit or loss.

Cash and cash equivalents consist primarily of cash on hand, checks, demand deposits at banks, as well as debt instruments and certificates of deposits with remaining term when acquired of up to three months, which are not subject to any material value fluctuations. Cash at September 30, 2023 was \$42 million (December 31, 2022: \$82 million). In addition, cash held in collection accounts for ABS deals are included in other financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets with cash flows other than those of principal and interest on the nominal amount outstanding. Further financial assets that are held in a business model other "hold to collect" or "hold to collect and sell" are included here.

In addition, derivatives, including embedded derivatives separated from the host contract, which are not classified as hedging instruments in hedge accounting, as well as financial assets acquired for the purpose of selling in the near term that are classified as held for trading, are included here. Gains or losses on these financial assets are recognized in profit or loss.

(f) Impairment of financial assets

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.

Unaudited interim consolidated financial statements as of and for the periods ended September 30, 2023 and 2022

The same method is used for the impairment of non-revocable loan commitments and financial guarantees. The expected credit-loss approach uses three stages for allocating impairment losses:

Stage 1: expected credit losses within the next twelve month

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 30 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 initially measured over the lifetime of the instrument.

MBFS 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).

Measurement of expected credit losses. Expected credit losses are measured in a way that reflects:

- the unbiased and probability-weighted amount;
- the time value of money; and
- 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, cost.

performance index) and forecasts of future economic conditions. For receivables from financial services, these forecasts are performed using a scenario analysis (base case, adverse and optimistic scenarios). The impairment amount for trade receivables is predominately 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 (e.g., that leads to a change in the present value of the contractual cash flows of 10%) leads to derecognition of 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.

(g) Financial liabilities

Financial liabilities primarily include trade payables, payables to related parties, financial liabilities and other liabilities. Financial liabilities include \$8,469 million and \$7,720 million asset backed secured debt at September 30, 2023 and December 31, 2022 respectively.

Financial liabilities measured at amortized cost

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

Insofar as the Group enters into reverse factoring agreements in which trade receivables of a supplier are transferred to a financial intermediary, changes in the presentation of the original trade payables may occur. That would be the case if these liabilities differed in nature and function from other trade payables. As a result, these liabilities would be presented separately.

Financial liabilities at fair value through profit or loss

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

(h) Derivative financial instruments and hedge accounting

Derivative financial instruments are measured at fair value upon initial recognition and at each subsequent reporting date. The fair value of listed derivatives is equal to their positive or negative market value. If a market value is not available, fair value is calculated using standard financial valuation models such as discounted cash flow or option pricing models. Derivatives are presented as assets if their fair value is positive and as liabilities if the fair value is negative.

If the requirements for hedge accounting set out in IFRS 9 are met, MBFS USA designates and documents the hedge relationship from the date a derivative contract is entered into as a fair value hedge or a cash flow hedge. In a fair value hedge, the changes in the fair value of a recognized asset or liability or an unrecognized firm commitment are hedged. In a cash flow hedge, the variability of cash flows to be received or paid from expected transactions related to a recognized asset or liability or a highly probable forecasted transaction is hedged. The documentation of the hedging relationship includes the objectives and strategy of risk management, the type of hedging relationship, the nature of the risk being hedged, the identification of the eligible hedging instrument and the eligible hedged item, as well as an assessment of the effectiveness requirements comprising the risk mitigating economic relationship, the

absence of deteriorating effects from credit risk and the appropriate hedge ratio. Hedging transactions are regularly assessed to determine whether the effectiveness requirements are met while they are designated.

Changes in fair value of non-designated derivatives are recognized in profit or loss. For fair value hedges, changes in the fair value of the hedged item and the derivative are recognized in profit or loss. For cash flow hedges, fair value changes in the effective portion of the hedging instrument are recognized after tax in other comprehensive income.

Under IFRS 9, with cash flow hedges, 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 the hedged item, e.g. 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 interim 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 IFRS 9. This applies for example to the time value of options or cross currency basis spreads.

Hedge relationships are to be discontinued prospectively if a particular hedge relationship ceases to meet the qualifying criteria for hedge accounting under IFRS 9. Instances that require discontinuation of hedge accounting are, among others, loss of the economic relationship between the hedged item and the hedging instrument, disposal or termination of the hedging instrument, or a revision of the documented risk management objective of a particular hedge relationship. Accumulated hedging gains and losses from cash flow hedges are retained and are reclassified from equity as described at maturity if the hedged future cash flows are still expected to occur. Otherwise, accumulated hedging gains and losses are immediately reclassified to profit or loss.

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

2. Accounting estimates and management judgements

In the interim 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. The major items affected by such estimates and management judgments are described as follows. Actual amounts may differ from the estimates. Changes in the estimates and management judgments can have a material impact on the interim consolidated financial statements.

(a) Provisions for other risks and contingent liabilities

A provision is recognized when a liability to third parties has been incurred, an outflow of resources is probable and the amount of the obligation can be reasonably estimated. The amount recognized as a provision represents the best estimate of the obligation at the balance sheet date. Provisions are regularly reviewed and adjusted as further information develops or circumstances change.

(b) Recoverable amount of equipment on operating leases

MBFS USA regularly reviews the factors determining the values of its leased vehicles. In particular, it is necessary to estimate the residual values of vehicles at the end of their leases, which constitute a substantial part of the expected future cash flows from leased assets. In this context, assumptions are made regarding major influencing factors, such as the expected number of returned vehicles, the latest remarketing results and future vehicle model changes. Those assumptions are determined either by qualified estimates or by publications provided by expert third parties; qualified estimates are based, as far as publicly available, on external data with consideration of internally available additional information such as historical experience of price developments and recent sale prices. The residual values thus determined serve as a basis for depreciation; changes in residual values lead either to prospective adjustments of the depreciation or, in the case of a significant decline in expected residual values, to impairment. If depreciation is prospectively adjusted, changes in estimates of residual values do not have a direct effect but are equally distributed over the remaining periods of the lease contracts.

(c) Collectability of financial receivables

MBFS USA regularly estimates the risk of default on financial receivables. Many factors are taken into consideration in this context, including historical loss experience, the size and composition of certain portfolios, current economic events and conditions and the estimated fair values and adequacy of collaterals. In addition to historical and current information on losses, appropriate and reliable forward-looking information on factors is also included. This information includes macroeconomic factors (e.g. GDP growth, unemployment rate, cost-performance index) and forecasts of future economic conditions. For financial receivables, these forecasts are determined using a scenario analysis (baseline scenario, optimistic and pessimistic scenario). Further external information, such as information in connection with the covid-19 pandemic, which cannot be depicted in the scenarios, is included in the assessment through subsequent adjustments as necessary. Changes to the estimation and assessment of these factors influence the allowance for credit losses with a resulting impact on MBFS USA's net profit.

3. Risks and uncertainties

MBFS USA's financial position and results of operations are subject to numerous risks and uncertainties. The uncertainty of weak economic recovery in the U.S. economy, and the broader global economy, could cause actual results to vary from current expectations. Additional parameters which may cause actual results to differ from current expectations include:

- further increases in overcapacity and the intensity of competition in the automotive industry;
- fluctuations in currency exchange rates and interest rates;
- the resolution of significant legal proceedings; and
- environmental and other government regulations.

Computation of Ratio of Earnings to Fixed Charges (In millions of U.S. dollars)

	Nine months ended September 30,	
	2023	2022
Earnings	387	676
Add:		
Interest included in expense	742	346
One-third of rental expense	1	1
Adjusted earnings	1,130	1,023
Fixed Charges:		
Interest included in expense	742	346
Interest capitalized	19	14
One-third of rental expense	1	1
Total fixed charges	762	361
Ratio of earning to fixed charges	1.48	2.83