Supplementary information on agenda item 9.3:

Annual Financial Statements and Management Report for BMW Bank GmbH as of 31 December 2019

BMW Bank GmbH, Munich

Management Report 2019

1. Business Report

1.1 General economic situation

The global economy was subject to stress of numerous sorts in 2019 and expanded at a rate of only 2.9 %, the lowest growth rate in several years. The economic slowdown was broad-based. Increased economic output was achieved in only one of the G7 countries (Japan, 1.0 %). Even the BRIC countries were affected the general decline in economic momentum and posted growth rates below those of last year. Economic development in the United Kingdom (UK) was impacted by the continuing uncertainty regarding the terms of Brexit and hence the country's future relationship to the European Union (EU). In the United States, gross domestic product (GDP) rose by 2.3 %, making 2019 the tenth consecutive year of US growth. The 2019 rate of growth in China was 6.1 %, down slightly from the previous year. However, the Chinese economy was again held back in 2019 by the numerous US protective tariffs on Chinese products, prompting China's government to respond with fiscal and monetary measures to avoid an overly sharp economic downturn.

At 1.2 %, growth in the eurozone was likewise below that of last year. While major eurozone economies again expanded (Germany +0.6 %, France +1.3 %, Italy +0.2 %, Spain +2.0 %), the rate of such expansion was considerably weaker than in the previous year. Exports, private-sector demand, and government spending slightly above that in the previous year all contributed to the economic development. Despite a decline in industrial production, the unemployment rate continued to fall and is now at its lowest level since 2008. Given the soft economy and diminishing inflationary pressure, the European Central Bank (ECB) decided towards the end of the year to resume its securities purchasing program and further reduce its deposit rate.

The IFO Business Climate Index, a leading indicator of economic developments, fell from 101.0 points at the end of the previous year to 96.3 points at year end 2019. Companies are thus more guarded in their assessments both of the current business situation and their expectations than was the case last year.[1]

1.2 Industry-specific situation

The Federal Reserve System (Fed) lowered its key interest rate several times in 2019. The last decrease in October set a target range of 1.5 % to 1.75 %. By contrast, the key interest rate in the eurozone remains at 0 %.[2]

The savings rate of German private households was on a par with last year and stood at 10.9 % at year's end. In Germany, monetary assets continue to be held particularly in cash and demand deposits despite the persistence of low yields.[3]

The low-interest environment and increased regulatory requirements continue to depress returns in the banking industry even though low interest rates were to be seen as a positive factor from a refinancing perspective.

2019 was a good year for the leasing industry. Investments in the leasing of personal and real property in Germany totaled EUR 65.3 billion. This represents a year-on-year increase of 8.0 %. With a 78.0 % share of new leasing business, vehicle leasing remains the dominant factor in the industry.[4]

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1 IFO Institute, results of IFO business survey in January 2020 (https://www.ifo.de/node/51739)

2 Statista, key interest rate [Federal Funds Rate] 2019, November 2019 (https://de.statista.com/statistik/daten/studie/419455/umfrage/leitzins-der-zentralbank-der-usa/)

3 Deutsche Bundesbank, monthly report December 2019, vol. 71, no. 12 (https://www.bundesbank.de/de/publikationen/berichte/monatsberichte/monatsbericht-dezember-2019-818558)

4 Bundesverband deutscher Leasing-Unternehmen [Federation of German Leasing Companies], 2019 (https://bdl.leasingverband.de/zahlen-fakten/leasing-in-deutschland/)

A downward trend was observable for most automobile markets in 2019. Worldwide, new registrations of cars and light utility vehicles fell by 2.8 % in the reporting period to 83.5 million vehicles overall. The registration figures declined in China (-7.1 %) as well as in the United States (-1.2 %) and Japan (-1.5 %). New registrations rose in Germany (+4.7 %) and France (+1.6 %), but fell above all in Spain (-11.9 %) and Italy (-0.2 %).

2. Company-specific underlying conditions

2.1 Business activities

BMW Bank GmbH was established in 1971. It has three branches – one each in Italy, Spain, and Portugal. The majority interest held in the French subsidiary BMW Finance S.N.C., Guyancourt, France (BMW Finance S.N.C.) was sold to BMW AG on October 8, 2019.

Within the financial services division of the BMW Group, BMW Bank GmbH performs operative functions in connection with customer and dealer financing as well as the leasing business, thus supporting the sales of BMW Group products. In addition, in Germany BMW Bank GmbH is also engaged in importer financing and the banking business.

The operations of BMW Bank GmbH as of December 31, 2019 / in fiscal year 2019 are broken down by regions in the following table:

Total lendings EUR million	Germany	Italy	Spain	Portugal	BMW Bank GmbH
Customer financing	5,386.4	2,805.3	1,853.0	285.0	**10,329.7**
Dealer and importer financing	2,724.6	907.0	450.5	200.6	**4,282.7**
Operating leases (leased assets)	11,723.1	125.9	35.7	0.0	**11,884.7**
Total	**19,834.1**	**3,838.2**	**2,339.2**	**485.6**	**26,497.1**

Number of new contracts	Germany	Italy	Spain	Portugal	BMW Bank GmbH
Customer financing	104,812	49,923	40,914	5,705	**201,354**
Dealer and importer financing	334,725	88,605	66,937	22,127	**512,394**
Operating leases	144,581	3,099	248	0	**147,928**
Total	**584,118**	**141,627**	**108,099**	**27,832**	**861,676**

Number of existing contracts	Germany	Italy	Spain	Portugal	BMW Bank GmbH
Customer financing	318,109	164,394	108,862	18,158	**609,523**
Dealer and importer financing	84,139	20,397	12,933	4,338	**121,807**
Operating leases	378,664	11,982	1,135	0	**391,781**
Total	**780,912**	**196,773**	**122,930**	**22,496**	**1,123,111**

2.2 Products and services

2.2.1 Retail business

BMW Bank GmbH provides leasing and financing solutions for new and used vehicles.

BMW Bank GmbH's financing products include basic and balloon loans for new, demonstration, and used BMW and MINI brand vehicles, including nearly new used vehicles, as well as financing for used vehicles of other brands. Insurance products are offered in addition to the range of financing options for automobiles and motorcycles.

In the leasing business, BMW Bank GmbH offers kilometer contracts, which in the case of non-business customers can contain a risk-free option to sell. The product portfolio also includes residual value contracts for business customers.

In addition to the lease itself, BMW Bank GmbH also offers optional service modules, such as automobile insurance, tire service, and maintenance and repair services. The leasing package also includes replacement cars, so that customers remain mobile while their cars are in the workshop for maintenance and repairs.

A full service package is offered to customers with small and mid-sized vehicle fleets.

2.2.2 Dealer financing

In the dealer financing business, BMW Bank GmbH offers loans to BMW Group dealers and non-BMW-Group dealers, for automobiles in particular. Accordingly, BMW Bank GmbH does business with a large number of dealers.

In the dealer financing business we invest heavily in building solid client relationships, with the aim of establishing and developing personal contacts with local dealer relationship managers to enhance and improve customer satisfaction, cooperation, and information flow with the borrowers.

2.2.3 Importer financing

In addition to dealer financing, the Bank also extends loans for BMW Group products to BMW importers. BMW Bank GmbH thus plays a major role in promoting automobile sales in markets that have no sales organization of their own.

2.2.4 Banking

Our deposit banking business offers overnight, term deposit, and savings accounts. Customers can manage their deposit accounts by telephone, Internet, or mail.

In collaboration with Augsburger Aktienbank, Augsburg, the Bank offers customers securities accounts (BMW Premium Depot) in which they can hold and trade all securities registered in Germany.

In addition, BMW credit cards for customers (BMW Credit Cards) and BMW Corporate Cards for employees are offered as part of co-branding models.

2.2.5 Insurance

BMW Bank GmbH and its insurance partners broker automobile insurance for customers via the BMW / MINI dealer network. Besides automobile and motorcycle insurance with various features, warranty extension insurance is also offered. Customers with vehicle financing loans also have the option of taking out insurance that will pay off the loan if the vehicle is totaled in an accident or stolen. BMW Bank GmbH also offers payment protection insurance covering loan installment payments for borrowers who lose their job through no fault of their own or are unable to work due to sickness, accident, or disability, and in the event of the borrower's death.

3. Analysis of business development

3.1 Business development

While the pace of economic growth again diminished somewhat, new contract volume in the retail business of BMW Bank GmbH remained on a par with last year. The total number of new contracts was 349,282 (previous year: 349,538 contracts). In the German market, a surge in new leasing business more than compensated for the decline in the financing area. The total number of customer financing and lease contracts in the retail business of BMW Bank GmbH increased by 3.9 % to 1,001,304 contracts (previous year: 961,825).

In the dealer financing business, the total number of contracts held by BMW Bank GmbH at year's end rose by 11.1 % to 101,023 contracts (previous year: 90,944).

In importer financing, the total number of contracts held by BMW Bank GmbH rose from 16,836 contracts in the previous year to 20,784 contracts. This represents growth of 23.4 % and is attributable in particular to better business performance in the United Arab Emirates and Qatar.

The deposit volume of BMW Bank GmbH was on a par with last year (EUR 9.3 billion; previous year: EUR 9.4 billion).

BMW Bank GmbH refinanced its operations through customer deposits, asset-backed-security transactions (ABS), intra-Group loans from the BMW Group and, to a very small extent, through liabilities to credit institutions.

Management notes by way of summary that 2019 was a year of positive development in the business of BMW Bank GmbH despite the stiff competition that the Company continues to face.

3.2 Net assets and financial position

The total assets of BMW Bank GmbH expanded by EUR 2.3 billion to EUR 28.7 billion in 2019. The increase results principally from increases in leased assets and in receivables from customers. The change is partially offset by the sale of the majority interest in BMW Finance S.N.C. As a result of the greater refinancing requirements, the increase is reflected on the liabilities side in higher amounts for liabilities to customers and other liabilities.

3.2.1 Assets

Changes in assets are summarized in the following table:

	12/31/2019	12/31/2018	Change
	EUR million	EUR million	EUR million
Cash reserve	240.8	79.2	161.6
Receivables from credit institutions	491.0	731.4	-240.4
Receivables from customers	14,799.3	13,834.1	965.2
Bonds and other fixed-income securities	747.9	901.8	-153.9
Shares in affiliated companies	0.0	257.4	-257.4
Fixed assets	11,885.5	10,069.2	1,816.3
Leased assets	11,884.7	10,067.1	1,817.6
Property, plant, and equipment	0.8	2.1	-1.3
Other assets	472.3	452.8	19.5
Prepaid expenses	6.4	16.2	-9.8
Surplus of plan assets over pension liabilities	23.3	17.7	5.6
Total assets	**28,666.5**	**26,359.8**	**2,306.7**

The increase in the **cash reserve** results from overnight deposits with the ECB.

The decline in **receivables from credit institutions** resulted primarily from the fact that our subsidiary BMW Finance S.N.C., which we sold in October, largely relies on another Group company for refinancing instead of on BMW Bank. This factor is partially offset by higher current account balances and overnight deposits with third-party banks.

Changes in **receivables from customers** after loan loss impairments are summarized in the following table:

	12/31/2019	12/31/2018	Change
	EUR million	EUR million	EUR million
Customer financing	10,329.7	10,092.2	237.5
Germany	5,386.4	5,506.7	-120.3
Italy	2,805.3	2,619.2	186.1
Spain	1,853.0	1,672.0	181.0
Portugal	285.0	294.3	-9.3
Dealer financing	3,602.1	3,113.5	488.6
Germany	2,044.0	1,543.6	500.4
Italy	907.0	916.1	-9.1
Spain	450.5	448.1	2.4
Portugal	200.6	205.7	-5.1
Importer financing (Germany)	680.6	593.0	87.6
Operating leases	13.2	14.4	-1.2
Germany	12.3	13.7	-1.4
Italy	0.8	0.3	0.5
Spain	0.1	0.4	-0.3
Other receivables	173.7	21.0	152.7
Receivables from customers	**14,799.3**	**13,834.1**	**965.2**

Customer financing

The slight rise in the volume of loan receivables is due in particular to the marked growth in the Spanish and Italian branches. Gross receivables declined somewhat in Germany and Portugal. Loan loss impairments increased in Spain, Germany, and Portugal before consideration of the allowance for general banking risks pursuant to § 340f HGB, but remained on a par with last year in Italy.

Dealer financing

The volume of receivables from dealer financing rose considerably in Germany compared with the previous year, in which a one-time sale of dealer receivables in an amount of EUR 317.7 million took place. In the branches, the volume of receivables was on a par with last year.

Importer financing

In importer financing, the higher volume of receivables was above all a consequence of the positive performance in the United Arab Emirates, Saudi Arabia, Qatar, and Columbia.

Other receivables, consisting primarily of receivables from affiliated companies, rose for interperiod accounting reasons.

Bonds and other fixed-income securities declined primarily because of securities issued by German federal and state governments and credit institutions that matured in 2019 (EUR 364.9 million; previous year: EUR 530.5 million).

As a result of the sale of BMW Finance S.N.C., there are no **shares in affiliated companies** as of December 31, 2019 (previous year: EUR 257.4 million).

In 2019, **leased assets** once again rose significantly from EUR 10,067.1 million to EUR 11,884.7 million due to the stronger new contract volume.

Other assets rose by EUR 19.5 million to EUR 472.3 million, in particular because of vehicles being sold at the end of the lease agreement.

3.2.2 Equity and Liabilities

Changes in equity and liabilities are summarized in the following table:

	12/31/2019	12/31/2018	Change
	EUR million	EUR million	EUR million
Liabilities to credit institutions	79.0	135.9	-56.9
Liabilities to customers	17,165.3	15,584.5	1,580.8
Other liabilities	7,126.4	6,680.6	445.8
Deferred income	749.4	638.2	111.2
Provisions	258.6	252.8	5.8
Fund for general banking risks	1,300.0	1,080.0	220.0
Equity	1,987.8	1,987.8	0.0
Total equity and liabilities	**28,666.5**	**26,359.8**	**2,306.7**

The right side of the balance sheet reflects above all the refinancing of business operations. This refinancing is almost exclusively in Euros. BMW Bank GmbH refinances its operations through its deposit business, several ABS transactions, and borrowing from Group and non-Group lenders. A small amount of refinancing is also obtained in USD for importer financing. Maturity structures at the balance sheet date ranged from due on demand to ten years (with 97.83 % maturing within three years). Interest rates vary depending on the market trend. The interest rates as of the balance sheet date ranged from -0.23 % to 2.51 %.

Liabilities to credit institutions fell to EUR 79.0 million (previous year: EUR 135.9 million). The decline is due in particular to the existence in the previous year of an obligation to remit sums received on receivables that had been sold.

The debt financing consisted mainly of **liabilities to customers** incurred in the deposit banking business and loans received from intra-Group lenders. The change in this item is as follows:

	12/31/2019	12/31/2018	Change
	EUR million	EUR million	EUR million
Savings deposits	3,754.9	3,812.0	-57.1
Other liabilities	13,410.4	11,772.5	1,637.9
of which to affiliated companies	7,755.2	6,161.3	1,593.9
of which from overnight and term deposits	5,566.0	5,557.7	8.3
of which other	89.2	53.5	35.7
Liabilities to customers	**17,165.3**	**15,584.5**	**1,580.8**

BMW Bank GmbH met its payment obligations at all times in fiscal year 2019 and possessed sufficient liquidity as of the balance sheet date to meet its existing payment obligations. In addition, BMW Bank GmbH held an irrevocable loan commitment for EUR 450.0 million, on which it has not yet drawn.

Other liabilities existed in particular vis-à-vis Bavarian Sky S.A., Luxembourg, a special purpose vehicle, and resulted from ABS transactions. At BMW Bank GmbH, the future residual values of the lease vehicles as well as future leasing receivables and customer financing receivables are securitized through the special purpose vehicle. Liabilities from ABS transactions rose from EUR 6,144.1 to EUR 6,514.7 million in the fiscal year elapsed. Two ABS transactions expired in 2019 and were replaced by two new transactions of greater volume.

The increase in **deferred income** results principally from higher interest subsidies, which are a consequence of growth in the leasing business and are paid primarily by BMW AG, and from leasing down-payments made by customers.

The special item **fund for general banking risks** pursuant to § 340g HGB increased year-on-year to EUR 1,300.0 million (previous year: EUR 1,080.0 million). The increase took the form of a direct addition from current-year net income in an amount of EUR 110.0 million combined with the conversion of risk reserves existing under § 340f HGB into § 340g HGB allowances (reversal § 340f HGB / addition § 340g HGB). BMW Bank GmbH thereby strengthens its own funds for regulatory purposes.

Under Article 92 of the Capital Requirements Regulation (CRR), the banking supervision authority regards a bank's capitalization with own funds as adequate if the bank maintains minimum ratios of 4.5 % for Common Equity Tier 1 capital, 6.0 % for Tier 1 capital, and 8.0 % for total capital. For comments on the procedure for determining capitalization with own funds under the CRR, see section 0 below. The following table shows the own funds, own funds requirements, and key ratios of BMW Bank GmbH:

	12/31/2019	12/31/2018
	EUR million	EUR million
Own funds	2,912.0	2,925.0
Tier 1 capital	2,912.0	2,925.0
Common Equity Tier 1 capital	2,912.0	2,925.0
Additional Tier 1 capital	0.0	0.0
Tier 2 capital	0.0	0.0
Risk-weighted assets	**21,066.0**	**20,304.0**
Capital ratios	**in %**	**in %**
Common Equity Tier 1 capital ratio[5]	13.8	14.4
Tier 1 capital ratio[6]	13.8	14.4
Total capital ratio[7]	13.8	14.4

The own funds of BMW Bank GmbH are by and large stable compared with the previous year. The 0.6 % year-on-year decline in the capital ratio is attributable primarily to the increase in risk-weighted assets in the dealer business and the increase in calculated residual values because of strong growth in the leasing business.

The existing equity ratio continued to ensure an adequate level of own funds for BMW Bank GmbH in compliance with the minimum regulatory requirements under Art. 92 CRR, the additional combined capital cushion requirements ("buffer requirements") under § 10i (1) KWG (Banking Act), and the additional capital requirements from the supervisory review and evaluation process ("SREP add-on").

The own funds ratio is not changed by the EUR 220 million increase in the § 340g HGB reserve until the shareholder adopts the annual financial statements. Taking account of § 340g HGB reserve as of 12/31/2019 would cause the above stated capital ratios to increase from 13.8 % to 14.9 %.

3.2.3 Other information

Irrevocable loan commitments (committed credit facilities) existed for dealer financing (EUR 113.8; previous year: EUR 101.0 million) and for customer financing (EUR 7.0 million; previous year: EUR 5.3 million). These may be drawn on at any time. There were no longer any commitments to affiliated companies (previous year: EUR 28.0 million).

[5] Common Equity Tier 1 capital ratio = Common Equity Tier 1 capital / ((capital charge for counterparty default risks + capital charge for operational risk + capital charge for market risk) * 12.5) * 100

[6] Tier 1 ratio = Tier 1 capital / ((capital charge for counterparty default risks + capital charge for operational risk + capital charge for market risk) * 12.5) * 100

[7] Total capital ratio = Own funds / ((capital charge for counterparty default risks + capital charge for operational risk + capital charge for market risk) * 12.5) * 100

The **contingent liabilities** consist of liabilities from obligations as surety / guarantor amounting to EUR 0.8 million (previous year: EUR 0.8 million). The risk of having to meet these obligations is deemed minimal as there were no identifiable risks as of the reporting date.

BMW Bank GmbH's **other financial commitments** amounted to EUR 59.9 million as of the reporting date (previous year: EUR 65.8 million). They consist primarily of commitments to BMW AG from the invoicing of outsourced IT services (EUR 56.4 million; previous year: EUR 63.9 million). These will also be recognized in expenses in the year to follow.

3.3 Results of operations

Changes in the net income (before profit transfer) of BMW Bank GmbH are summarized in the following table:

	2019	2018	Change
	EUR million	EUR million	EUR million
Net interest income	499.3	487.2	12.1
Net leasing income	2,029.9	1,822.8	207.1
Net commission income	-121.1	-124.6	3.5
Net other operating income	103.5	57.9	45.6
General administrative expenses	-279.7	-284.3	4.6
Depreciation of leased assets	-1,733.7	-1,581.7	-152.0
Depreciation of property, plant, and equipment	-0.3	-0.3	0.0
Net income from writedowns / writeups and reversals of / additions to impairments of receivables	45.1	-118.9	164.0
Addition to the fund for general banking risks	-220.0	0.0	-220.0
Net operating income	**323.0**	**258.1**	**64.9**
Extraordinary income / expense	0.0	-0.3	0.3
Income taxes	-60.6	-56.2	-4.4
Other taxes	-1.0	-0.9	-0.1
Net income (before profit transfer)	**261.4**	**200.7**	**60.7**

The higher net income resulted primarily from higher net leasing income and the positive net income from writedowns and impairments to receivables due to reversal of the adjustment for general banking risks under § 340f HGB in an amount of EUR 110.0 million. Furthermore, net other operating income in the previous year was lower as a result of the regulatory fine imposed by the Italian antitrust authorities. These factors were partially offset by the addition to the fund for general banking risks and by the volume-related increase in depreciation of leased assets.

Net interest income in the fiscal year elapsed was as shown in the following table:

	2019	2018	Change
	EUR million	EUR million	EUR million
Interest income from	681.6	690.3	-8.7
Customer financing	461.8	457.2	4.6
Dealer financing	92.6	90.5	2.1
Leasing	0.2	0.3	-0.1
ABS transactions	108.9	121.4	-12.5
Affiliated companies	3.8	8.5	-4.7
Hedging transactions	4.8	3.0	1.8
Other	9.5	9.4	0.1
Interest expense from	-182.3	-203.1	20.8
Liabilities to customers	-40.1	-39.9	-0.2
Liabilities to Bavarian Sky	-127.0	-137.6	10.6
Hedging liabilities	-14.4	-15.4	1.0
Other	-0.8	-10.2	9.4
Net interest income	**499.3**	**487.2**	**12.1**

Interest income declined, reflecting in particular lower interest income from ABS transactions and from the reduced refinancing of BMW Finance S.N.C. The decline was partially offset by higher interest income from customer financing due to the higher volume of loan receivables in the Italian and Spanish branches. The reduction in interest expense resulted above all from lower interest expense on ABS transactions and a decline in other interest expense reflecting lower losses due to actuarial factors (change in the discount rate) regarding pension provisions.

Net leasing income after depreciation rose as follows year-on-year due to higher volume:

	2019	2018	Change
	EUR million	EUR million	EUR million
Leasing income	4,309.2	4,042.1	267.1
Leasing expenses	-2,279.3	-2,219.3	-60.0
Net leasing income	2,029.9	1,822.8	207.1
Depreciation of leased assets	-1,733.7	-1,581.7	-152.0
Net leasing income after depreciation	**296.2**	**241.1**	**55.1**

Net commission income improved slightly to EUR -121.1 million (previous year: EUR -124.6 million).

Net other operating income rose to EUR 103.5 million after been limited to EUR 57.9 million in the previous year by a regulatory fine imposed by the Italian antitrust authorities.

Changes in **general administrative expenses** are summarized in the following table:

	2019	2018	Change
	EUR million	EUR million	EUR million
Personnel expenses	-115.6	-117.5	1.9
Other administrative expenses	-164.1	-166.8	2.7
General administrative expenses	**-279.7**	**-284.3**	**4.6**

General administrative expenses fell slightly (by EUR 4.6 million) to EUR 279.7 million. This results from lower additions to provisions for personnel expenses and the deferral of projects until the following year.

The following table summarizes changes in net income from writedowns / writeups and reversals of / additions to impairments of receivables:

	2019	2018	Change
	EUR million	EUR million	EUR million
Net reversal (prev. year: net addition)	75.8	-93.5	169.3
Writedowns of customer receivables	-21.6	-24.9	3.3
Loan-loss provisions	-10.1	-6.1	-4.0
Income from receivables previously written off	5.7	11.1	-5.4
Other	-4.7	-5.5	0.8
Writedowns and impairments	**45.1**	**-118.9**	**164.0**

From net expense of EUR 118.9 million in the previous year, writedowns and impairments of receivables and certain securities have improved by EUR 164.0 million, thus yielding net income of EUR 45.1 million in 2019. Expense of EUR 57.7 million would have been reported for 2018 without the one-time effects from modifying the loan loss impairment methodology effective January 1, 2018 (reversal in an amount of EUR 78.8 million) and from the addition to the risk adjustment per § 340f HGB (EUR 140.0 million). The expense for 2019 would have been EUR 64.9 million, i.e. EUR 7.2 more than the prior year figure ignoring one-time influences, without the reversal of the adjustment for general banking risks under § 340f HGB in an amount of EUR 110.0 million.

Direct writeoffs of receivables amounted to EUR 21.6 million (previous year: EUR 24.9 million). Income from receivables previously written off declined from EUR 11.1 million to EUR 5.7 million. Income in an amount of EUR 45.1 million thus resulted in 2019.

Income taxes and **other taxes** were slightly higher in the fiscal year elapsed:

	2019	2018	Change
	EUR million	EUR million	EUR million
Italian branch	36.8	37.0	-0.2
Spanish branch	21.3	15.7	5.6
Portuguese branch	2.3	3.5	-1.2
Other	0.2	0.0	0.2
Income taxes	**60.6**	**56.2**	**4.4**
Other taxes	**1.0**	**0.9**	**0.1**

Net income after income taxes and other taxes amounts to EUR 261.4 million (previous year: EUR 200.7 million). This sum is transferred to the shareholder in accordance with the profit and loss transfer agreement.

3.4 Performance indicators

The following table summarizes changes in the most significant financial and non-financial performance indicators in fiscal year 2019 compared with last year's forecast:

	2018 Actual	Forecast for 2019	2019 Actual
Fluctuation rate[8]	19.1 %	Significant decline	8.0 % (-11.1 % points) Significant decline
Return on risk adjusted capital (RORAC)[9]	17.8 %	Slight increase	20.3 % (+2.5 % points) Slight increase
New retail business lending volume (in € billions)[10]	9.4	Slight decline	9.8 (+4.8 %) Slight increase
Administrative expense per contract in €[11]	241.6	Slight improvement	234.7 (-2.8 %) Slight improvement
Cost-Income Ratio[12]	42.8 %	Slight improvement	39.1 % (-3.7 % points) Slight improvement

The fluctuation rate declined in fiscal year 2019 from 19.1 % to 8.0 %. The decline was due in particular to BMW Group restructuring measures that were implemented in the previous year and involved transferring employment relationships of BMW Bank in Germany to BMW AG effective April 1, 2018.

Return on risk adjusted capital (RORAC) rose in the fiscal year in particular as a result of a 2.5 percentage point increase in net income before taxes; as forecast, it slightly exceeded the prior year figure.

New retail business volume expanded somewhat from EUR 9.3 billion to EUR 9.8 billion, thereby rising contrary to expectations. The increase is attributable to higher penetration rates and larger average financing amounts because of a higher leasing percentage. New contracts for used cars are on a par with last year.

Administrative expense per contract improved somewhat (by 2.8 %) compared with the previous year as a result of slightly higher contract volume in the retail and dealer businesses.

The cost-income ratio of 39.1 % reflects portfolio growth without a commensurate increase in overall administrative expense, hence slightly higher net operating income. As forecast, the cost-income ratio thus improved slightly (by 3.7 percentage points) year-on-year.

8 Employees who left the Company / Ø number of employees in the year

9 Net operating income / ECAP (economic capital)

10 Customer financing and operating leases

11 Administrative expense net of income from service level agreements / Number of existing contracts

12 Administrative expense net of income from service level agreements / Net interest, leasing, and commission income (net leasing income after depreciation)

4. Opportunities and risk report

4.1 Risk management organization and policies

BMW Bank GmbH defines risks as the internal or external events arising from uncertainty about future developments that may have a negative impact on the achievement of the Company's targets. Opportunities are potential successes that exceed the targets and thus may have a positive effect on business developments. Risks and opportunities are inseparably linked. Accordingly, the attempt to take advantage of an opportunity in e.g. dynamic growth markets or new business sectors always entails risks.

Business opportunities for BMW Bank GmbH result from the economy's positive development since this is as a rule accompanied by rising demand for BMW Group vehicles, from which BMW Bank GmbH benefits through the range of financial service products it offers for these vehicles. Management believes that the addition of new BMW AG vehicle variants to the product mix will also help BMW Bank GmbH participate in the stronger vehicle demand through its financial services. Furthermore, progressive urbanization, the increasing popularity of electrical drive systems, and new digital customer interfaces are examples of developments that present BMW Bank GmbH with strategic opportunities to branch out into new growth segments by creating financial service products for innovative mobility concepts and associated services. Further comment on the opportunities specific to certain types of risk is provided in the discussion of the material risks faced by BMW Bank GmbH.

In addition to the general risk of reduced demand for BMW Group vehicles that arises for BMW Bank GmbH from business cycle fluctuations, such risk is also posed by, among other things, the ongoing public debate on the disadvantages of individual mobility in metropolitan areas. The uncertainty surrounding impending changes in the fundamental conditions of individual mobility (electrification) and the potential implications of these changes for the residual values of vehicles with certain types of drive systems also pose risks for BMW Bank GmbH, particularly with respect to the used car market. Through appropriate study and analysis of sustainability risks, the management of BMW Bank GmbH intends to take account of the ever growing challenges stemming from climate change and its consequences for the financial system. Such study and analysis will extend beyond the physical and transitory risks and include issues of social responsibility and corporate governance as well. BMW Bank GmbH regards the handling of sustainability risks as an important matter and communicates closely with the BMW Group with a view to implementing a comprehensive sustainability strategy.

BMW bank GmbH employs effective management and control systems to identify, assess, and appropriately manage risks at an early stage. These systems, which are integrated into a unified risk management system, are described below.

The central purpose of the comprehensive risk management of BMW Bank GmbH is to identify, assess, and actively and passively manage risks jeopardizing the attainment of the corporate goals and the ramifications of such risks, whether the risks are internal or external in nature. Risk management also includes risk monitoring and the associated reporting. Another important element of the risk management system is the implementation, further development, and monitoring of the internal control system (IKS), including the organizational safeguards built into the structure and operations of BMW Bank GmbH (such as the separation of functions and the clear delineation of responsibilities).

In light of the requirements of customers and the banking oversight agency, risk management at BMW Bank GmbH ensures the adequacy and effectiveness of the risk management system through continuous monitoring and refinement of the individual processes. Adequacy and effectiveness are also monitored by internal auditing reviews.

In accordance with the Minimum Requirements for Risk Management (MaRisk) issued by the Federal Financial Supervisory Authority (BaFin), the risk controlling function is exercised by the Chief Risk Officer (CRO) of BMW Bank GmbH, who heads the Risk Management Department.

The foreign branches of BMW Bank GmbH in Italy, Spain, and Portugal as well as its subsidiary BMW Finance S.N.C. in France[13] are integrated into the Bank's risk management system. The central Risk Management Department of BMW Bank GmbH develops and implements strategies, methodological standards, risk models, and guidelines and assists the European markets in their local implementation of the defined standards.

The following diagram depicts the risk management processes, organizational framework, and chief pillars of strategic risk management as an elementary part of the overall risk strategy.

Risk management processes of BMW Bank GmbH

The business strategy defines the main strategic principles of BMW Bank GmbH, the goal of which is to further strengthen our client relationships while simultaneously meeting all regulatory requirements. To ensure that the business and risk strategies harmonize with each other, it is important to recognize whether business decisions made may have an impact on the risk to which BMW Bank GmbH is exposed. For this reason, the decision-making process considers, in addition to the business goals the Bank sets for itself, the risks that these may entail.

The risk strategy defines the basic features of the risk culture, formulates risk policies, and determines risk appetite in light of the business strategy. To achieve this, BMW Bank GmbH has implemented an appropriate strategy process. Based on the risk inventory, the risk-bearing capacity, the risk appetite, and the requirements of regulatory law, the risk strategy is reviewed once annually and re-approved by management.

The core elements of the risk culture of BMW Bank GmbH are described and defined in BMW Bank GmbH's risk culture framework. These core elements promote an appropriate risk culture through effective corporate management and oversight, clear definition and specification of risk appetite, and corresponding compensation and incentive systems, among other things. They are reflected in the four pillars: "Tone from the Top," "Responsibility," "Effective Communication and Transparency," and "Incentive Systems." In 2019, further training and implementation measures were carried out throughout the entire organization in order to anchor this risk culture more deeply in the Company.

To ensure that it has adequate equity and adequate liquidity at all times, BMW Bank GmbH has established internal interlocking ICAAP and ILAAP framework processes (internal capital / internal liquidity adequacy assessment processes) encompassing in particular risk-bearing capacity, capital and liquidity planning, and stress tests. In 2019, as part of this process, BMW Bank GmbH introduced the economic and normative perspectives based on the revised guideline of the German Federal

[13] Following the sale of the subsidiary BMW Finance S.N.C. in October 2019, effective November 1, 2019 only the branches in Italy, Spain, and Portugal are integrated into the risk management of BMW Bank GmbH.

Financial Supervisory Authority (BaFin) on the regulatory assessment of internal bank risk-bearing capacity concepts and the procedures integrating them into the overall bank controlling system. While the economic perspective had in the past already been determined and monitored under the gone concern approach (liquidation approach) and the reporting modifications effective January 1, 2020 (gone concern approach becomes economic perspective) result in no changes in the identification of risk and risk coverage potential, the normative perspective was introduced for the first time in 2019 based on the existing capital planning process and replaces the going concern approach, which had previously been reviewed every six months.

BMW Bank GmbH periodically conducts a risk inventory to identify potential risks facing the Bank and assesses the relevance and materiality of such risks. This is done by quantifying the risks in question or, for non-quantifiable risks, by expert appraisal. Material risks are regularly monitored and, where indicated, compared with the risk coverage potential and subjected to limits to contain the risk and ensure risk-bearing capacity. In 2019, the sustainability implications of the relevant types of risk were also integrated into the risk inventory process.

The analysis of the risk-bearing capacity of BMW Bank GmbH is furthermore supplemented by cross-risk and risk-specific stress tests. The results of a variety of stress test scenarios, such as macroeconomic shocks, are communicated to management and critically considered in conjunction with it in periodic workshops as well as in quarterly or, in the case of liquidity risk, also monthly reports. This involves discussing the potential consequences for BMW Bank GmbH and its risk strategy, the relevant risk drivers, and the possible courses of action consistent with the recovery planning, as well as taking action where necessary. In addition to its regular stress tests, BMW Bank GmbH also has processes in place for reviewing the need for and carrying out unscheduled stress tests.

The risk management process of BMW Bank GmbH is complemented by a detailed, multi-year capital planning process designed to ensure the adequacy of the Bank's equity capitalization from both an economic and a regulatory point of view for the coming years. The comprehensive annual capital planning is supplemented by quarterly updates of the material planning figures.

In the context of the recovery planning required by regulatory law, BMW Bank GmbH considers potential crisis scenarios and their implications for the Bank. The definition of recovery plan indicators and recovery measures is intended to identify any economic instability in the position of BMW Bank GmbH as early as possible and then to take effective countermeasures to address the situation. The recovery planning, the stress tests, and the adverse capital and liquidity planning scenarios are coordinated with each other and the related processes interlock.

The core elements and processes of the risk management system of BMW Bank GmbH are reported and presented to the Supervisory Board once annually. The Supervisory Board is responsible for monitoring the effectiveness of the risk management system. In addition, the three lines of defense (business lines, risk management and compliance function, internal audit function) ensure a clear segregation of functions and thus oversight of the existing processes and systems.

4.2 Risk identification

BMW Bank GmbH conducts a risk inventory at least once a year, in the course of which a comprehensive risk catalog is used to identify the risks facing the Bank and assesses their significance. This involves a critical assessment of the extent to which the risks are relevant and material to BMW Bank GmbH and consequently must be incorporated in the processes for managing and reporting on risk and calculating risk-bearing capacity. In fiscal year 2018, BMW Bank GmbH classified its material risks (for fiscal year 2019) as follows:

Types of material risks	Integrated in risk-bearing capacity
Counterparty default risks	
Credit risks	Yes
Counterparty and issuer risk	Yes
Collateralization risk	Yes
Country or transfer risk	Yes
Market risks	
Residual value risk	Yes
Interest rate risk	Yes
Credit valuation adjustment risk (CVA)	Yes
Liquidity risks	
Insolvency risk	No
Refinancing cost risk	Yes
Market liquidity risk	Yes
Operational risks	
Operational Risk in the narrow sense	Yes
Reputational risk	No
Legal, compliance, and behavioral risks	Yes
Other types of risk	
Modeling risk	Yes
Placement risk	Yes
Customer option exercise risk	Yes
Pension risk	Yes
Business and earnings risk	Yes
Strategic risk	No
Concentration risk	Yes

Other types of risk considered to be relevant, but immaterial, are addressed by risk appetite.

As part of the 2019 risk inventory (for fiscal year 2020), the risk inventory process was expanded to include analyzing the sustainability implications of the separate types of risk in addition to identifying and classifying such risks. In accordance with the guidance published by BaFin in 2019 on dealing with sustainability risks, these were, however, not treated as a separate type of risk.

Below, the material types of risks are defined and the process by which they are managed and monitored at BMW Bank GmbH is described.

4.3 Risk measurement, management, and monitoring

The coronavirus has in the meantime reached Germany. Depending on its duration and intensity, the possibility of negative effects on BMW Bank must be anticipated. The risk situation may be impacted in particular as regards counterparty default risk and residual value risk. The Bank monitors the development of all material types of risk and regularly reviews their potential implications for its risk situation.

4.3.1 Counterparty default risks

BMW Bank GmbH defines counterparty default risks as potential losses in value owing to the default or a deterioration in the quality of the credit rating of a contractual party (customer, dealer, issuer, counterparty). BMW Bank GmbH subdivides counterparty default risks into the categories credit risk, counterparty risk, issuer risk, collateralization risk, and country or transfer risk. As part of specific stress tests, the impact of rising default rates, concentrations, volume growth, credit risk migrations, impaired collateral, and sensitivities are calculated for counterparty default risks.

4.3.1.1 Credit risks

The credit risk comprises both default and migration risks. BMW Bank GmbH is exposed to default risks when a customer, dealer, or importer is unable to fulfill its contractual obligations in whole or in part and BMW Bank GmbH for this reason derives less income or incurs losses. Default risks represent by far the largest component of the counterparty default risk confronting BMW Bank GmbH. At BMW Bank GmbH, migration risk is the risk that customers' creditworthiness will deteriorate and cause the book value of the related receivables to decline. In this case, BMW Bank GmbH suffers a loss in the amount of the change in value. Conversely, where the scope of loan defaults or deterioration in creditworthiness is less than forecast, an opportunity exists to reduce losses or realize income. The development of the credit risks of BMW Bank GmbH was stable in 2019.

The management of new and existing credit risks is integrated into the risk management process, the risk reporting, and the calculation of risk-bearing capacity. For instance, in the acquisition phase, default risks are managed by means of authorization rules and approval limits that vary depending on exposure level, degree of risk, and collateralization value.

Scoring systems are employed to assess creditworthiness in the customer financing and leasing businesses. These are monitored and periodically validated. They form the basis for exact and consistent measurement and management of credit risks and the rating of positions depending on the level of risk they entail. The creditworthiness of dealers and importers is likewise assessed using an internal rating procedure. Dealers and importers are rated based both on quantitative creditworthiness using ratios obtained from their year-end financial statements and qualitative factors such as e.g. the reliability of the business relationship.

The loan transactions of BMW Bank GmbH are appropriately collateralized depending on the credit rating arrived at by means of the process described above. The required collateral and the procedures used to value it are defined in an overarching directive that is periodically reviewed and adjusted as necessary. Given the business model of BMW Bank GmbH, motor vehicles in particular are used as loan collateral. In light of this, market value fluctuations are constantly analyzed and relevant changes are considered for purposes of valuing the collateral.

Credit risks are managed first of all by calculating the present value of the standard risk costs at the time the lending decision is made. The expected loss is thus explicitly considered as a cost factor when setting prices. Secondly, adjustments are made in accordance with risk provision procedures for changes in credit ratings / creditworthiness during the term of the loan.

BMW Bank GmbH has implemented processes to monitor all exposures with regard to economic circumstances, collateral, compliance with limits, contractual obligations, and internally imposed conditions. These processes ensure that exposures receive adequate attention in accordance with their degree of risk as normal, work-intensive, or problem loans.

In addition, the portfolio level credit risk is managed by calculating the unexpected loss and taking this risk into account when calculating BMW Bank GmbH's risk-bearing capacity. The unexpected loss is calculated using an internal credit portfolio model (Credit Value at Risk – CVaR). The model simulates a loss distribution based on the CreditMetrics model and takes account of migration and concentration risks in addition to counterparty default risks. Reviewing the dependency on macroeconomic changes enables a consistent scenario analysis. While regularly performed calculations of unexpected loss are used to estimate potential losses under historical conditions, analyses are also carried out using assumptions in the form of stress tests that simulate potential extreme events.

As of December 31, 2019, the default probabilities underlying the credit portfolio model averaged around 2.5 % for the portfolio as a whole and were thus on a level similar to that of last year. The loss rate used in the model as an additional parameter averaged around 43 % and thus likewise remained stable.

4.3.1.2 Counterparty and issuer risk

At BMW Bank GmbH, counterparty risk is defined as the risk of default by a counterparty with which overnight and term deposits have been placed or by a counterparty on an interest rate derivative and the risk that the credit rating of such counterparties may deteriorate. Issuer risk is the risk that the issuer of a security will default, i.e. fail to fulfill interest and repayment obligations on portfolio securities, and the risk that its credit rating may deteriorate.

BMW Bank GmbH maintains an adequate level of liquidity to guarantee its business activities. This liquidity is invested daily in overnight and term deposits at banks, in receivables from financial service providers, and in securities. In addition, the Bank's Treasury department manages the interest rate risk of BMW Bank GmbH through interest rate derivatives. These transactions result in counterparty and issuer risks. They are integrated in the risk management process, the risk reporting, and the calculation of risk-bearing capacity by calculating the unexpected loss (CVaR). Unexpected losses serve to estimate potential losses under historical conditions. This analysis is supplemented by stress tests that simulate realistic extreme events.

Issuer and counterparty risks are also contained at the individual credit exposure level by means of issuer and counterparty limits.

4.3.1.3 Collateralization risk

Collateralization risk refers to the risk that the loan collateral will lose (part of) its value over the term of the loan. BMW Bank GmbH uses haircuts when considering the value of all types of collateral. Losses due to fluctuation in the value of the collateral are taken into consideration when calculating the credit risk parameters (loss given default – LGD), which are used in the calculation of risk-bearing capacity.

4.3.1.4 Country or transfer risk

Country risk refers (economically speaking) to total or partial counterparty defaults preceded and caused by a total or partial sovereign default by the country in which the counterparty is located. Transfer risks comprise transfer and convertibility risks. This refers to the risk that a country may, for instance, restrict the flow of capital and thereby limit the conversion of local currency into foreign currency or the export of funds across the national borders, thus preventing the repayment of debts.

Most of BMW Bank GmbH’s business is conducted in the Euro Area. Country and transfer risks nevertheless exist with respect to importer financing outside of the Eurozone.

Inclusion in the risk management process is accomplished by factoring a country-specific risk premium into the default probability, which impacts the assigned rating. Country and transfer risks are accordingly factored into the calculation of risk-bearing capacity by considering ratings in the credit portfolio model.

Country-specific insurance is also taken out on a case-by-case basis for exposures involving high country and/or transfer risk risks.

4.3.2 Market risks

Market risks reflect the potential loss from unfavorable changes in market prices or price factors.

4.3.2.1 Residual value risk

Lease agreements are a strategically important financing instrument for new automobiles for BMW Bank GmbH. The residual value determined at the beginning of a lease is a key parameter for calculating the lease payments. There is a general risk that the residual value at the time the leased asset is sold at the end of the lease may be less than the residual value projected when the lease was signed. Yet there is also the chance that the amount realized when the leased asset is sold will exceed the forecast residual value.

After dipping slightly at the start of the year, residual values stabilized in the course of 2019. The decline at the start of the year was, however, partly seasonal and partly due to higher vehicle mileage and accordingly already factored into the residual value forecasts. However, the coronavirus, electromobility, and the current discussion regarding the future of SUV models represent volatile external factors posing additional residual value risks for the future that are regularly assessed and closely monitored by means of scenario analyses.

Residual value is calculated in several steps. The first step entails an internal estimate of the future fair value (base residual value) based on historical internal and external market data. In the second step, the contractual residual value (CRV) is determined and forms the basis for calculating the monthly installments for the customer. Over the term of the contract, the internal forecast is periodically updated based on the information available at the time of re-evaluation (adjusted market prognosis, AMP).

The residual value setting process is one means of managing the residual value risks. In this regard, a working group at BMW Bank GmbH analyzes, assesses, reviews and adjusts the existing or new base residual values. In addition, the various residual values (base, CRV, AMP) constitute a basis for appropriate management of the residual value risk exposure of BMW Bank: the distinction between base residual value and CRV permits partial transfer of the residual value risk to BMW AG or to third parties (e.g. dealers) pursuant to written loss-sharing contracts (profit and loss sharing agreements, PLSA). Furthermore, AMP constitutes the basis for calculation of risk allowances. This ensures that the expected losses are reflected in the residual value risk allowance over the term of the contract.

Furthermore, the residual value risk is factored into BMW Bank GmbH's risk-bearing capacity by calculating the unexpected loss (residual value at risk – RVaR). Residual value at risk is derived from the difference between AMP and a worst case market value determined by means of a volatility model. Unexpected losses at the vehicle level are therefore influenced by market value volatilities, the corresponding vehicle return probabilities, and the currently valid PLSAs. In addition, correlations between various vehicle categories are also considered at the portfolio level.

Unexpected losses serve to estimate potential losses under historical conditions. This analysis is supplemented by specific stress tests that calculate the effects of concentrations, volume increases, market value fluctuations, and sensitivities.

4.3.2.2 Interest rate risk

Interest rate risks reflect the potential losses from a change in market interest rates, i.e. the potential loss that BMW Bank GmbH could incur following a change in interest rates in the money and capital market. Conversely, there is an opportunity to utilize market developments so as to generate a positive maturity transformation gain. In the low-interest environment of 2019, such factors were successfully used to generate net interest income under both the present-value and period-oriented methods.

Interest rate risks can arise when the fixed interest periods applicable to assets are incongruent with those for liabilities. Since BMW Bank GmbH is a non-trading-book institution within the meaning of the German Banking Act (Kreditwesengesetz), interest rate risks can arise only in the banking book.

BMW Bank GmbH enters into loan and lease agreements on the assets side and finances these facilities on the liabilities side through customer deposits, ABS transactions, intra-Group loans, and outside loans. It therefore has interest-bearing items on both sides of the balance sheet with different maturities and interest rates. Interest rate risks are integrated into the risk management process, risk reporting, and risk-bearing capacity. For repricing and yield curve risks, the latter is accomplished using the interest rate value at risk (IRVaR) as determined by historical simulation. The anticipated cash flows of asset and liabilities items are used for this purpose. IRVaR is calculated from the portfolio's present value loss as determined using historical interest scenarios. Present value losses are influenced by the historical interest scenarios as well as by the open interest rate positions. Tenor basis risks are also considered using tenor basis value at risk (TVaR), an in-house model introduced in 2019 for this sub-type of interest rate risks. TVaR is calculated as the present value loss resulting from changes in the tenor basis spreads determined using a volatility model.

While regular determinations of unexpected loss are used to estimate potential losses under historical conditions, analyses are also performed using assumptions that simulate realistic extreme events. Interest rate positions are stress tested to see how they hold up to extraordinary interest rate changes under both the present value approach and the multi-period approach. The simulated results of the stress test and the interest rate shock scenarios (+200 / -200 base points) are analyzed for high risk potentials, and action is taken if necessary. Effective December 31, 2019, the stress tests were modified in accordance with BaFin Circular 06/2019 (BA) and stress tests were introduced for the early warning indicators identified in the Circular.

BMW Bank GmbH hedges part of the interest rate risk from its underlying hedged items on a portfolio basis. Payer and receiver swaps are used as hedging instruments. More information on interest rate risk hedging is found in the Notes.

Given the average financing and leasing term of three years and the regular, rolling adjustment of hedges to the portfolio risk structure, the future opposite changes in value will be hedged in accordance with the Company's risk strategy. The hedging relationship must therefore be regarded as highly effective.

4.3.2.3 Credit valuation adjustment risk (CVA)

In connection with its refinancing operations, BMW Bank GmbH issues asset-backed securities (ABS) through the special purpose vehicle Bavarian Sky S.A., Luxembourg. Interest rate risks arising from the ABS transactions are hedged using over-the-counter interest rate derivatives. Deterioration in the credit rating of the derivative counterparty may negatively impact the value of the derivatives. The absolute loss in value of the derivatives potentially resulting therefrom constitutes credit valuation adjustment risk; the higher the price of the derivative, the higher such potential loss. The risk is integrated into the risk management processes and the calculation of risk-bearing capacity through the computation and planning of regulatory equity requirements as well through the credit portfolio model.

4.3.3 Liquidity risks

BMW Bank GmbH distinguishes between the following three main types of liquidity risk: insolvency risk, refinancing cost risk, and market liquidity risk. In particular, the specific characteristics and effects of the risk types and the various time horizons are taken into account:

<table>
<tr><th colspan="5">Types of Liquidity Risks and Risk Management Approaches</th></tr>
<tr><th colspan="3">Insolvency risk</th><th rowspan="2">Refinancing cost risk</th><th rowspan="2">Market liquidity risk</th></tr>
<tr></tr>
<tr><td colspan="3">Risk of late and/or incomplete discharge of payment obligations</td><td rowspan="2">Risk of having to accept less favorable conditions in order to obtain additional financing</td><td rowspan="2">Risk that assets cannot be sold on the market, or only at a discount</td></tr>
<tr><td>Same day</td><td>Short term</td><td>Medium and long-term</td></tr>
<tr><td>Part of operative treasury dept. liquidity mgt.</td><td>Liquidity at Risk (LaR)
Liquidity Coverage Ratio (LCR)</td><td>Matched Funding
Liquidity Planning</td><td>Liquidity Value at Risk (LVaR)</td><td>Haircuts</td></tr>
</table>

The liquidity at risk (LaR) approach, the liquidity coverage ratio (LCR), and the matched funding concept (which seeks to match the maturities of the assets and liabilities carried) are used for short, medium, and long term management of the operational liquidity risk (insolvency risk) and supplemented by ongoing liquidity planning including adverse scenarios.

In this connection, LaR, i.e. the liquidity required in stress situations, is calculated daily on the basis of internal assumptions and compared with the liquidity reserve. In 2019, the LaR was at all times covered by the available liquidity reserve. As of December 31, 2019, LaR amounted to EUR 405.7

million (December 31, 2018: EUR 821.9 million) compared to a liquidity reserve of EUR 1,041.9 (December 31, 2018: EUR 1,130.3 million). This represents 38.9 % utilization of the liquidity reserve by LaR (December 31, 2018: 72.7 %). For one thing, liquidity at risk takes account of unscheduled terminations of contracts and counterparty defaults. Secondly, a haircut is applied when counting the securities as a liquidity reserve so as not to underestimate the risk that changing market circumstances may pose for liquidity (market liquidity risk). The fair value of the securities before deducting the haircut in the liquidity reserve amounted to EUR 364.1 million as of December 31, 2019 (after deducting the haircut: EUR 356.5 million). The haircut applied is double that of the ECB haircut.

The LCR is calculated based on Regulation (EU) 2015/61 (EU delegated act on the liquidity coverage requirement) and then compared with qualified highly liquid assets. To ensure day-to-day LCR compliance, an approximative calculation of the LCR is performed on a daily basis. A minimum target level of 110 % was introduced to cover fluctuations. In 2019, the LCR at all times exceeded the required minimum quota of 100 % under regulatory law. The LCR was 124.99 % as of December 31, 2019 (December 31, 2018: 131.0 %).

Risks resulting from refinancing costs are considered in the risk management processes, included in the risk reporting, and factored into the calculation of risk-bearing capacity through the liquidity value at risk (LVaR). Changes in LVaR over the course of the year are shown in sec. 4.4, where the utilization rate and the limit are also compared to each other as of December 31, 2018 and 2019.

To ensure an adequate diversification of liabilities, BMW Bank GmbH seeks to achieve a predefined refinancing mix between the following funding sources: deposits, ABS transactions, and intercompany loans. ABS structures are completely factored into the risk-bearing capacity concept. In the event of a liquidity crisis, BMW Bank GmbH can directly acquire the ABS securities issued by the special purpose vehicle in order to deposit them as security at the European Central Bank in return for immediate liquidity.

As part of specific stress tests, additional liquidity requirements are calculated for the following eventualities: increased deposit withdrawals, defaults by borrowers, and limited functionality of the refinancing mix. The survival period is also calculated in each case. The impact of spread increases on the refinancing cost risk is also considered. The liquidity management of BMW Bank GmbH is also aligned with the new regulatory requirements regarding the net stable funding ratio (NSFR).

4.3.4 Operational risks

BMW Bank defines operational risk as the risk of harm caused by the inadequacy or outright failure of internal processes, individuals, and systems or by external events, including legal risks. BMW Bank defines legal risks as the risk resulting from potential non-compliance with applicable regulations or stipulations or from regulatory changes. Behavioral risks are a component of legal risks. The term "operational risks" does not include business risks and strategic risks.

As part of its management of operational risks, BMW Bank GmbH has appointed operational risk officers for each department or each material project. These are charged with ensuring that incurred losses are properly reported and recorded as well as with recognizing and reporting risk scenarios together with the probability of their occurrence, their loss level, and potential countermeasures. A periodic annual review process also exists by which existing risk scenarios are reviewed together with all operational risk officers and additional scenarios are defined where this is indicated.

Losses in excess of EUR 100 thousand as a result of operational risks are carefully analyzed to determine the cause and the findings are reported to the Risk Committee. Operational risk scenarios with an anticipated loss exceeding EUR 100 thousand, as well as legal and compliance risks, are likewise presented to the Risk Committee (a Management body with input from specialist departments) for confirmation. In addition, risk reduction measures are also discussed and adopted.

The Basel standardized approach is the basis for calculation of unexpected loss for operational risks. Under this approach, calculations are based on the three-year average value of the so-called "relevant indicator," which is derived from certain income statement items. This value is scaled to a confidence level of 99.98 % for purposes of factoring it into the risk-bearing capacity. Furthermore, estimated worst case scenario losses are considered for purposes of deriving and validating an additional risk safety margin (buffer). As part of specific stress tests, increased probabilities of occurrence are considered for various risk scenarios.

4.3.5 Other types of risk

In the category "other types of risk," BMW Bank GmbH groups together risks that are by and large managed in the process of managing the types of risk that have been described above.

4.3.5.1 Modeling risk

BMW Bank GmbH defines modeling risk as the risk of a potential loss, a misstatement of financial results, or harm to reputation to which BMW Bank GmbH may be exposed as a consequence of decisions based on the results of internal models (e.g. as a result of flaws in the design and/or implementation of models or as a result of the improper use of or excessive reliance on models). BMW Bank GmbH considers modeling risks only for models whose results have a direct impact on business or strategic decisions made by BMW Bank GmbH and for which validation processes either do not exist in the first place or have indicated the presence of modeling risks.

A model inventory process is carried out each year to prepare a model inventory list. Operational risk management includes procedures by which modeling risks are annually reviewed and evaluated and, if applicable, newly identified. This ensures risk management analogous to that applicable to operational risks at BMW Bank GmbH.

In addition, conservative model specification and calibration assumptions take implicit account of modeling risks in determining risk-bearing capacity. Furthermore, the periodic validation process ensures that the models employed are up to date.

4.3.5.2 Placement risk

Placement risk is the risk that it will prove impossible to place all newly issued securities on the markets or that the placement costs will exceed expectations.

For BMW Bank GmbH, placement risks from ABS transactions represent refinancing cost risks, i.e. the risk of more expensive refinancing spreads. The risk management and reporting processes take account of placement risks and factor them into the calculation of risk-bearing capacity through the liquidity value at risk (LVaR).

In addition to this regular risk management, placement risks and their impact on the liquidity of BMW Bank GmbH are also considered in stress tests that probe the consequences of incomplete ABS placements and increased refinancing spreads.

4.3.5.3 Customer option exercise risk

Customer option exercise risk refers to the risk of losses from options implicit in customer contracts. With regard to BMW Bank GmbH, implicit options arise from early or late termination of contracts as well as under so-called Select contracts, which give the customer the option at the end of the contract term of returning the vehicle to BMW Bank GmbH at the contractual residual value.

By means of early termination models, the customer option exercise risks are integrated into IRVaR, LVaR, and LaR as well as into matched funding; they are thus factored into the risk management and reporting processes and the risk-bearing capacity concept. The risks arising from the right of return under Select contracts are considered when calculating RVaR.

4.3.5.4 Pension risk

Risks from pension liabilities result from changes in the rates of interest or inflation, from changes in salary trends, and from changes in the statistical life expectancy of the persons with pension entitlement and may potentially require an increase in the pension provisions.

BMW Bank GmbH records provisions reflecting the pension rights of its employees. The risks from pension liabilities and employee pension funds are considered in the risk management and reporting processes and included in the calculation of risk-bearing capacity by means of the pension risk model. Actuarial opinions are periodically obtained on the provisions for retirement and partial retirement pensions and on the benefits for anniversaries for purposes of proper actuarial valuation of these provisions. Pension value at risk (PVaR) is used to measure the unexpected loss from pension risks. This is calculated as the difference between the present values of assets and liabilities, whereby a Monte Carlo simulation is used to determine present value. For this purpose, a capital market model is used that models the relevant asset classes as well as liabilities. It in particular takes account of the risk-free interest rates and inflation as the major drivers.

Changes in PVaR over the course of the year are shown in sec. 4.4, where the utilization rate and the limit are also compared to each other as of December 31, 2018 and 2019.

4.3.5.5 Business and earnings risk

The term "business and earnings risk" refers to the risk that changes in the macroeconomic environment or the competitive situation may result in the realization of profits that are below expectations. Negative divergence may for instance result from detrimental changes in business volume, margins, or costs.

Numerous factors may influence the planned profitability of BMW Bank GmbH. For this reason, divergences from the planning are regularly monitored as part of the current reporting and in the forecasting / planning process. For purposes of risk-bearing capacity, losses in the fiscal year in progress diminish the risk coverage potential on a gone concern basis / under the economic perspective. Under the going concern approach / normative perspective, earnings risks are considered when determining planned earnings. In addition, business and earnings risks are also addressed by risk appetite.

4.3.5.6 Strategic risk

BMW Bank GmbH uses the term "strategic risk" to refer to the risk resulting from fundamental strategic decisions by management that may have significant impact on the long-term development of business activities and thus on the continued existence of BMW Bank GmbH. This includes for instance a limited market presence, an inaccurate assessment: of market segments, or an excessive amount of debt.

The defined strategic goals are regularly monitored as part of the short, medium, and long term business planning. Furthermore, the introduction of new products or projects involves estimating their long-term consequences. Should the business planning indicate a negative development, the risk safety margin (buffer) defined in connection with risk appetite in addition ensures that the time needed to take corrective action can be bridged with regard to adequate equity capitalization in the sense of risk-bearing capacity.

Finally, the comprehensive stress test process also includes analyzing potential vulnerabilities in the Bank's strategic orientation and taking appropriate responsive action if needed.

4.3.5.7 Concentration risk

Concentration risk is defined as the danger to which a bank is exposed because of a lack of diversification in its receivables or payables.

As a financial service provider that is tied to a manufacturer, BMW Bank GmbH's business model is closely linked to assuming risk concentrations. These concentrations exist primarily with respect to the sector, the products offered, and the Company's relationship to the BMW Group; they also include income concentrations. BMW Bank GmbH consciously exposes itself to these concentration risks in order to use its specialized knowledge to obtain and extend competitive advantages.

In managing individual business transactions, credit risk concentrations in dealer financing and Treasury are managed by setting and monitoring limits for the various dealers, counterparties, and issuers.

The credit portfolio model (CVaR) takes account of risk concentrations in the country-specific dealer financing portfolios, in the securities and overnight deposits that form part of the liquidity reserve, and in the risk concentration of BMW AG, Munich. The residual value at risk model (RVaR) considers risk concentration with regard to vehicle model lines. An analysis of concentrations also takes place as part of the stress tests for credit risk, residual value risk, liquidity risk, and interest rate risk.

To ensure adequate diversification of liabilities, BMW Bank GmbH manages liquidity risk concentrations by means of a predefined refinancing mix between the following funding sources: deposits, ABS transactions, and intercompany loans.

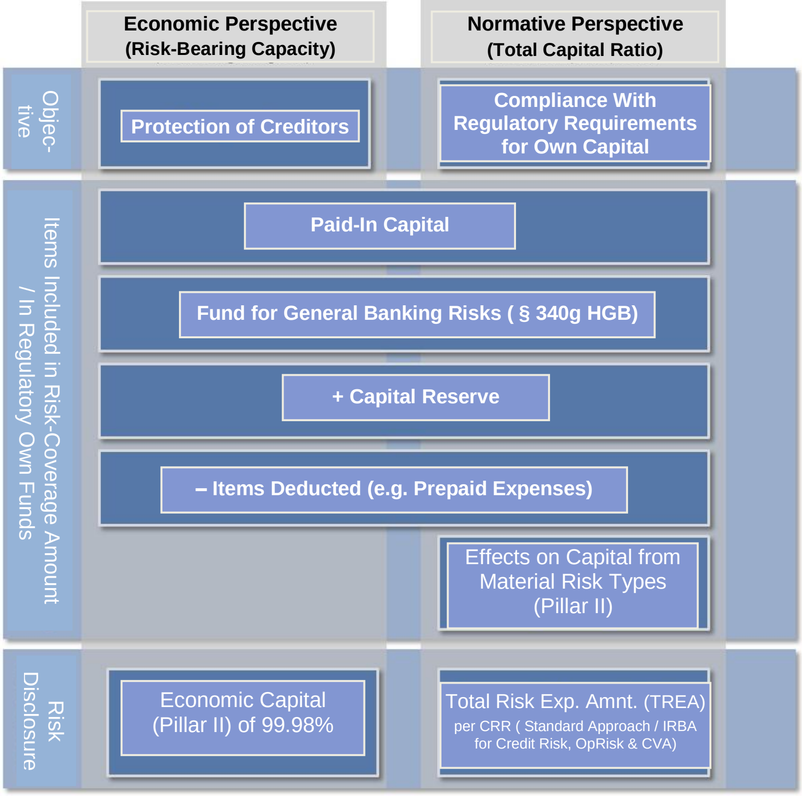
To take account of inter-risk concentrations, BMW Bank GmbH first of all uses a conservative aggregation of the overall risk potential without diversification between the various types of risk. Furthermore, the interaction of individual risk drivers is regularly analyzed and quantified in the context of combined, cross-risk stress tests.

4.4 Risk-bearing capacity

In the past, the gone concern approach (liquidation approach) was the primary approach applied by BMW Bank GmbH in its management of risk-bearing capacity. The premise of this approach is the protection of creditors in the event the risks are realized. With the introduction of the economic perspective in 2019, the gone concern approach has been replaced by the economic perspective in the Company's reporting system effective January 1, 2020. However, the transition does not result in any changes in the determination of risk and risk coverage potential. The requirements of the economic perspective as set forth in BaFin's revised guideline were thus already met in 2019 in the process of determining and monitoring risk-bearing capacity for purposes of the gone concern approach. Under both the gone concern approach and the newly introduced economic perspective, BMW Bank GmbH uses a confidence level of 99.98 % with a holding period of one year.

As a supplementary risk management approach, BMW Bank GmbH furthermore twice each year analyzed risk-bearing capacity under the traditional going concern approach. As of September 30, 2019, this approach was replaced by the normative perspective, which is merged into the standard risk reporting system of BMW Bank GmbH effective January 1, 2020. The normative perspective is intended to ensure future compliance with the key regulatory capital ratios (such as the total capital ratio and leverage ratio). To this end, future changes in the capital ratios are simulated in a baseline scenario as well as in several adverse scenarios covering three year periods. This process considers all material risks that may impact the capital ratios in question in the planning period. The normative perspective is determined and reported on a quarterly basis for purposes of the multi-year capital planning of BMW Bank GmbH.

The following diagram illustrates the differences in the two approaches introduced in 2019.



Capital adequacy perspectives

The determination of economic capital based on institution-specific risk modeling is a key element of the economic perspective. Risk-bearing capacity is ensured by measuring unexpected losses under the various value at risk (VaR) procedures and then comparing these losses with the existing risk coverage potential (in the form of equity). The integrated system of limits under the gone concern approach / the economic perspective is used to monitor risk-bearing capacity on a continuous basis.

Moreover, a minimum risk safety margin (buffer) is determined in connection with defining risk appetite. This minimum buffer constitutes the minimum margin by which risk coverage potential should at all times exceed the overall value-at-risk limit. It ensures that BMW Bank GmbH has sufficient capital on hand in situations requiring adjustments to the limits during the year in progress. The additional capital on hand furthermore covers, among other things, intangible risks such as maintenance risks and provides an additional capital buffer in case of other unforeseeable developments.

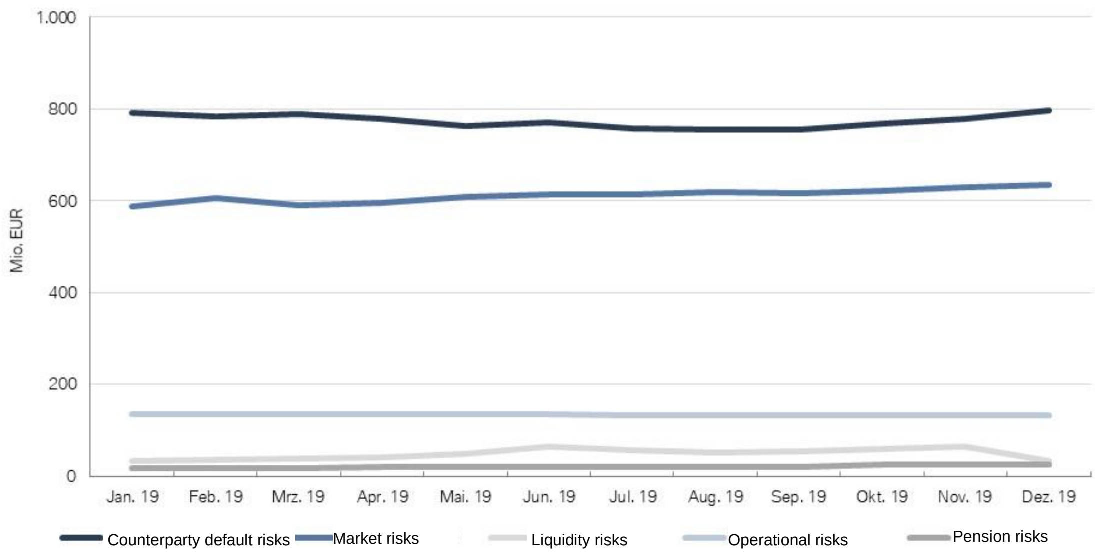
The risk-bearing capacity of BMW Bank GmbH was at all times assured in 2019.

Risk limits are set for the material types of risks: counterparty default risks, market risks, liquidity risks, operational risks, and pension risks. The extent of limit utilization on a gone concern basis / under the economic perspective is reported to the Company's management for all types of risks in a manner analogous to the following table:

Types of material risks (EUR million)	12/31/2019 Limit	12/31/2019 Utilization	12/31/2018 Limit	12/31/2018 Utilization
Counterparty default risks	912.0	796.7	856.0	743.7
Market risks	727.0	634.3	606.0	557.1
Liquidity risks	85.0	32.0	85.0	31.4
Operational risks	147.0	132.0	151.0	135.8
Pension risks	26.0	23.9	22.0	18.0
Total	**1,897.0**	**1,618.9**	**1,720.0**	**1,486.0**
Risk coverage potential	**3,020.1**		**2,877.9**	

Limit utilization of material types of risks of BMW Bank GmbH (December 31, 2018 and December 31, 2019) on gone concern basis / under the economic perspective

The following graph shows the economic risk of the material types of risk over the course of the year:



Development of the various types of risks in 2019 (utilization on gone concern basis / under the economic perspective)

The **counterparty default risks** (CVaR) remained largely constant in 2019 despite the overall growth in business volume that took place. The slight increase in **market risks** is due principally to the increase in residual value risks (RVaR) as a result of the expanding business volume, whereby offsetting trends from the quarterly portfolio re-evaluation were observable here to some extent (increasing expected loss, declining unexpected loss). The development of interest rate risks (IRVaR) underwent certain fluctuations in the course of the year depending on the amount of the respective hedging volume. With regard to **operational risks** (OpVaR), the equity required under the Basel standardized approach remained virtually unchanged after adoption of the 2018 financial statements in July. The higher **liquidity risks** (LVaR) in June and November 2019 are primarily related to the annual fixing of the price markups for the ABS transactions. **Pension risks** (PVaR) rose somewhat in 2019 in response to falling interest rate levels.

BMW Bank GmbH has implemented multi-year capital planning to supplement its risk-bearing capacity concept under both the economic and normative perspectives. This ensures that in the future, the Company will continue to have sufficient equity (own funds) to cover risks and that risks will continue to be monitored and planned in an appropriate manner. The aim is to identify in timely fashion any capital requirements (internal and regulatory) that may arise over the coming three years and to take appropriate action at an early stage where required. In addition to the developments anticipated in the baseline scenario, adverse scenarios involving various developments that diverge from expectations are also considered.

The capital planning assumptions and scenarios are comprehensively validated once a year. Results are updated and reported on a quarterly basis or if necessary ad hoc.

According to the results of its annual capital planning for the years 2020 - 2022, BMW Bank GmbH will meet its regulatory capital requirements throughout the entire planning horizon under both the normative and economic perspectives in the baseline scenario as well as in the adverse scenarios. To ensure that its internally targeted total capital ratio, which exceeds the minimum capital ratio for regulatory purposes, is met even if its business continues to grow, BMW Bank GmbH has arranged for its regulatory equity (own funds) to be increased in 2020 (upon adoption in 2020 of the 2019 financial statements).

4.5 Recovery planning

The German Federal Financial Supervisory Authority (BaFin) has classified BMW Bank GmbH as a so-called potentially system-threatening financial institution. The Bank is required to prepare a recovery plan pursuant to the German Act Regulating the Recovery and Resolution of Banks and Financial Groups (SAG). The current recovery plan for the year 2019 was submitted to the supervisory authority on January 31, 2020.

The recovery plan is intended to make banks more resilient in crisis situations by having them confront potential crisis scenarios and their impact on the bank in question at an early stage.

In light of the risk profile of BMW Bank GmbH, the recovery plan defined recovery plan indicators with regard to capital, liquidity, earnings, and asset quality as well as market-based or macroeconomic indicators. Recovery thresholds and/or early warning signals were set for each of the indicators. The objective is to recognize any economic instability in the position of BMW Bank GmbH early on and avert a crisis in timely fashion with the help of the thresholds and early warning signals. This involved defining options for action that affect equity capitalization, the risk profile, liquidity, and the results of operations and analyzing these options qualitatively with regard to their impact and feasibility in addition to assessing them quantitatively. Corresponding communication measures supplement the options for action. The adequacy of the thresholds and early warning signals defined for purposes of the recovery plan indicators, the related escalation and decision-making processes, and the effectiveness of the options for action was demonstrated by stress analysis within four stress scenarios. The recovery plan takes account of scenarios that are purely idiosyncratic, purely market-wide, and a combination of idiosyncratic and market-wide. The stress scenarios also consider both slow-moving and fast-moving events.

The monitoring of the recovery plan indicators and the integration of the related escalation and decision-making processes from the recovery plan into the existing risk management system are matters addressed in the written rules of Overall Bank Controlling.

4.6 Monitoring and reporting

The central body within the framework of strategic risk management at BMW Bank GmbH is the Risk Committee. The Risk Committee deals with all topics relating to risk management methods, formulates requirements, and decides on necessary measures. In addition to the Risk Committee, all risk-related topics are dealt with by the Credit Committee with a view to managing specific risks.

A daily risk report informs management as to the current interest and liquidity risk. In addition, the results from the monitoring of all material risk types are also reported to management in a monthly risk report. This includes, among other things, an overview of the limit utilization of all risk types for purposes of risk-bearing capacity under the economic perspective.[14] The risk report also includes detailed quantitative and qualitative comments on the material types of risks at the level of BMW Bank GmbH and the individual markets. Extraordinary developments trigger ad hoc reporting. The results of the stress test calculations are provided to management ad hoc monthly, quarterly, or annually, depending on the planning horizon.

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[14] Starting January 1, 2020, the quarterly risk report also includes the results under the normative perspective.

4.7 Legal and regulatory requirements

With respect to risk management, BMW Bank GmbH is subject primarily to the provisions of the German Banking Act (KWG) and the Minimum Requirements for Risk Management (MaRisk). The Basel III recommendations on the capital requirements of banks also apply. Material matters covered by Basel III were codified in the Capital Requirements Regulation (CRR; directly applicable EU law) and in the Fourth Capital Requirements Directive (CRD IV; transposed into German law in amendments to the Banking Act (KWG) and in supplementary regulations). The matters in question include in particular the definition of own funds, the minimum capital requirements, capital buffers, liquidity, and the debt-equity ratio (leverage ratio). The revised CRR II and CRD V entered into force in June 2019 and apply with few exceptions beginning in June 2021.

The minimum capital requirements under Article 92 CRR are presented in the overview of net assets and financial position, as is the actual equity capitalization of BMW Bank GmbH. Changes in the relevant liquidity ratios are summarized in sec. 4.3.3 (liquidity risks).

Bank-specific capital requirements were also imposed on BMW Bank GmbH as part of the Supervisory Review and Evaluation Process (SREP). BMW Bank GmbH has adapted its processes and risk management to these requirements so as to appropriately manage and monitor material risks.

In addition, BMW Bank GmbH also has routine monitoring procedures in place to identify changes in national and supranational regulatory requirements (e.g. BaFin guideline on risk-bearing capacity). The Bank assesses these as regards their relevance for BMW Bank GmbH and, where indicated, takes the necessary action to close compliance gaps.

BMW Bank GmbH has been authorized to use the advanced internal ratings-based approach (IRBA) to determine the amount of capital required to cover its credit risks. As of December 31, 2019, authorization had been obtained to use the Bank's own estimated risk parameters for the following rating procedures: German customer financing and German leasing business (both retail business asset class), German dealer financing (corporate asset class), and Spanish customer financing (retail business asset class). A number of far-reaching regulatory changes are pending as a result of the harmonization of the internal rating approaches across Europe. In addition to the continuous improvement of existing models and development of new ones, BMW Bank GmbH has initiated an implementation project to ensure implementation by the deadline at the end of 2020.

After the preparation of the financial statements, a separate disclosure report is published on BMW Bank GmbH’s homepage to fulfill the disclosure requirements under the CRR.

5. Information pursuant to § 340a (1a) in conj. with § 289b HGB (Commercial Code)

BMW Bank GmbH is included in the consolidated financial statements of BMW AG. On its website, BMW AG publishes a sustainable value report in conformity with Directive 2013/34/EU (separate non-financial report pursuant to § 315b (3) HGB). For this reason, BMW Bank is exempt under § 289b (2) HGB from the requirement of preparing a non-financial statement.

6. Information pursuant to § 289f HGB (Commercial Code)

To promote the holding of executive positions by women, new targets were set by shareholder resolution on April 28, 2017: the target for the number of seats held by women on the Management Board and the Supervisory Board was fixed at one (one woman) on each board. A deadline of December 31, 2020 was fixed for achieving these targets.

On January 31, 2017, the Management Board established new targets for the number of women in the top two management tiers beneath the Management Board: the target percentage is 8.0 % for women in tier 1 management beneath the Management Board and 30.0 % for women in tier 2 management beneath the Management Board. A deadline of December 31, 2020 was fixed for achieving these targets.

7. Outlook

The coronavirus will have serious consequences for the world economy. Although the agreement provisionally reached by the United States and China in their trade conflict and diminished concern over a disorderly departure from the EU by the UK led to some optimism at the start of the year, the implications of the coronavirus have more than canceled this out, making a precise estimate impossible at this time. Please see the report on subsequent events in the Notes.

In the eurozone, GDP growth substantially under the currently predicted 1.0 % must be expected for 2020. Growth in Germany is likely to be even lower. The economic prospects in the other eurozone member states are also decidedly lackluster. In Spain there will be slight growth at best, and a recession is probable in Italy, the first country to be affected by the coronavirus. An overall GDP growth rate for 2020 significantly under the current projection of 1.0 % must be anticipated.

In addition to the Federal Reserve Bank, other central banks are also expected to take action to soften the negative impact on the world economy and ensure liquidity. The refinancing strategy of BMW Bank GmbH continues to rely on the following instruments: deposits, ABS transactions, intra-Group loans, and, to a small extent, loans from banks.

Under the original projections, new vehicle registrations were expected to decline slightly worldwide in 2020 (83.1 million vehicles / – 0.5 %). As a result of the coronavirus, which has now spread around the world, a significant worldwide drop in registration figures must be expected.

	2019 Actual	Forecast for 2020
Fluctuation rate[15]	8.0 %	No change
Return on risk adjusted capital (RORAC)[16]	20.3 %	No change
New retail business lending volume (in € billions)[17]	9.8	Significant decline
Administrative expense per contract in €[18]	234.7	No change
Cost-Income Ratio[19]	39.1 %	Slight deterioration

The original forecast for fiscal year 2020 was prepared before the coronavirus issues arose. For this reason, estimates were obtained from experts to supplement the performance indicators at the time of financial statement preparation. Accurate forecasting of business performance for BMW Bank in the year 2020 is rendered much more difficult by the current uncertainty regarding further proliferation in the affected countries.

For 2020, BMW Bank GmbH anticipates a **fluctuation rate** on a par with last year.

In light of the situation described, higher provisions for credit and residual value risks are anticipated for 2020. BMW Bank GmbH expects net operating income in fiscal year 2020 to be no better than that in 2019, in which one-time additions to risk reserves kept income down. BMW Bank GmbH accordingly expects **RORAC** to remain unchanged in 2020.

BMW Bank GmbH expects **new business lending volume** to be significantly under that of last year.

No change is anticipated in **administrative expense per contract** since both expense and the number of existing contracts will increase slightly. Slight deterioration in the **cost-income ratio** is expected for 2020 as a consequence of lower net operating income.

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[15] Employees who left the Company / Ø number of employees in the year

[16] Net operating income / ECAP (economic capital)

[17] Customer financing and operating leases

[18] Administrative expense net of income from service level agreements / Number of existing contracts

[19] Administrative expense net of income from service level agreements / Net interest, leasing, and commission income (net leasing income after scheduled depreciation)

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Management will monitor further developments in fiscal year 2020 and analyze their potential impact on the performance indicators.

Munich, March 18, 2020

The Management

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Hans-Jürgen Cohrs

[Signature]	[Signature]	[Signature]	[Signature]
Hans-Peter Mathe	Dr. Winfried Müller	Dr.-Ing. Markus Walch	Thomas Weber

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Annual Financial Statements for the Fiscal Year
From January 1 to December 31, 2019

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Balance Sheet as of December 31, 2019 for BMW Bank GmbH, Munich

Assets

	12/31/2019	12/31/2018
	EUR thousand	EUR thousand
1. Cash reserve		
a) Cash on hand	1	2
b) Deposits with central banks	240,819	79,207
Thereof: Deutsche Bundesbank	**240,820**	**79,209**
EUR 240,789 thousand; previous year EUR 79,178 thousand		
2. Receivables from credit institutions		
a) Due on demand	416,821	165,687
b) Other receivables	74,151	565,730
	490,972	**731,417**
3. Receivables from customers	**14,799,290**	**13,834,105**
Thereof: secured by mortgage		
EUR 51,279 thousand; previous year EUR 57,533 thousand		
4. Bonds and other fixed-income securities		
a) Bonds and debt securities		
aa) From public issuers	364,839	505,433
Thereof: eligible as collateral with Deutsche Bundesbank EUR 361,373 thousand; previous year EUR 500,683 thousand		
ab) From other issuers	383,021	396,293
Thereof: eligible as collateral with Deutsche Bundesbank		
EUR 0 thousand; previous year EUR 24,752 thousand		
	747,860	**901,726**
5. Shares in affiliated companies	**0**	**257,426**
Thereof: in credit institutions		
EUR 0 thousand; previous year EUR 257,426 thousand		
6. Leased assets	**11,884,662**	**10,067,058**
7. Property, plant, and equipment	**801**	**2,056**
8. Other assets	**472,338**	**452,823**
9. Prepaid expenses	**6,453**	**16,226**
10. Surplus of plan assets over pension liabilities	**23,331**	**17,716**
Total assets	**28,666,527**	**26,359,762**

Munich, March 18, 2020

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Hans-Peter Mathe	Dr. Winfried Müller	Dr.-Ing. Markus Walch	Thomas Weber

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Balance Sheet as of December 31, 2019 for BMW Bank GmbH, Munich

Equity and Liabilities

	12/31/2019 EUR thousand	12/31/2018 EUR thousand
1. Liabilities to credit institutions		
a) Due on demand	27,492	13,072
b) With fixed term or withdrawal notice	51,582	122,805
	79,074	**135,877**
2. Liabilities to customers		
a) Savings deposits		
aa) With fixed withdrawal notice of three months	3,754,920	3,811,994
b) Other liabilities		
ba) Due on demand	4,162,121	3,837,179
bb) With fixed term or withdrawal notice	9,248,228	7,935,315
	17,165,269	**15,584,488**
3. Other liabilities	**7,126,455**	**6,680,630**
4. Deferred income	**749,388**	**638,236**
5. Provisions		
a) Provisions for pensions and similar obligations	2,291	2,172
b) Tax provisions	37,035	37,125
c) Other provisions	219,271	213,490
	258,597	**252,787**
6. Fund for general banking risks	**1,300,000**	**1,080,000**
7. Equity		
a) Subscribed capital	12,300	12,300
b) Capital reserve	1,972,211	1,972,211
c) Retained earnings		
ca) Other retained earnings	3,233	3,233
	1,987,744	**1,987,744**
Total equity and liabilities	**28,666,527**	**26,359,762**

1. Contingent liabilities		
a) Liabilities from warranties and guarantee agreements	772	773
2. Other obligations		
a) Committed credit facilities	120,753	134,263

Munich, March 18, 2020

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Income Statement of BMW Bank GmbH, Munich

for the Period from January 1 to December 31, 2019

	2019			2018		
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
1. Interest income						
a) From lending and money market transactions	672,795			681,276		
b) Negative interest income from lending and money market transactions	-1,965			-861		
c) From fixed-income securities and debt register securities	10,771	681,601		9,894	690,309	
2. Interest expenses						
a) Interest expenses	-182,615			-203,153		
b) Positive interest expense	311	-182,304	**499,297**	26	-203,127	**487,182**
3. Leasing income		4,309,200			4,042,052	
4. Leasing expenses		-2,279,277	**2,029,923**		-2,219,304	**1,822,748**
5. Commission income		124,915			114,990	
6. Commission expenses		-246,041	**-121,126**		-239,558	**-124,568**
7. Other operating income			**246,834**			**230,913**
8. General administrative expenses						
a) Personnel expenses						
aa) Wages and salaries	-98,511			-100,584		
ab) Social security contributions, pensions and other benefits	-17,047	-115,558		-16,905	-117,489	
Thereof: for pensions EUR 2,605 thousand; previous year EUR 2,095 thousand						
b) Other administrative expenses		-164,146	**-279,704**		-166,858	**-284,347**
9. Writedowns and impairments						
a) On leased assets		-1,733,739			-1,581,675	
b) On intangible and tangible assets		-251	**-1,733,990**		-295	**-1,581,970**
10. Other operating expenses			**-143,347**			**-172,972**
11. Addition to the fund for general banking risks			**-220,000**			**0**
12. Writedowns and impairments for receivables and certain securities as well as additions to loan loss provisions			**0**			**-118,855**
13. Income from writeups to receivables and certain securities as well as from reversal of loan loss provisions			**45,068**			**0**
14. Net operating income			**322,955**			**258,131**
15. Extraordinary expenses			**0**			**-263**
16. Income taxes			**-60,581**			**-56,227**
17. Other taxes, to the extent not included in item 10			**-1,000**			**-892**
18. Profits transferred under a profit and loss transfer agreement			**-261,374**			**-200,749**
19. Net income			**0**			**0**

Munich, March 18, 2020

[Signature]
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BMW Bank GmbH, Munich
Notes to the Financial Statements for Fiscal Year 2019

A. Basis of Presentation

The financial statements of BMW Bank GmbH, Munich (BMW Bank GmbH), are prepared in accordance with the provisions of the German Commercial Code (HGB), the provisions of the German Limited Liability Company Act (GmbHG), and the provisions of the German Accounting Regulation for Banks and Financial Service Institutions (RechKredV).

BMW Bank GmbH is entered in Commercial Register B of the Munich District Court (Amtsgericht) under HRB 82381.

The sole shareholder of BMW Bank GmbH is Bayerische Motoren Werke Aktiengesellschaft, Munich (BMW AG). The consolidated financial statements are available on the shareholder's website and are also published in the electronic Federal Bulletin (Bundesanzeiger). A profit and loss transfer agreement is in place between the two companies.

B. Accounting Policies

The financial statements were prepared in accordance with the general recognition and valuation provisions of §§ 246 - 256a HGB considering the additional provisions applicable to corporations (§§ 264 ff. HGB) and the supplementary rules for banks and financial service institutions (§§ 340 ff. HGB).

Cash reserve is stated at its face value.

Receivables from credit institutions are stated at cost in accordance with § 253 (1) and (4) sent. 2 HGB.

Receivables from customers are stated at cost. All identifiable imminent and latent risks have been accounted for by recognizing contract-level loan loss impairments. Specific loan loss impairments are recognized for imminent risks and group-based impairments are recognized at the individual contract level for latent risks.

The primary factors considered when determining loan loss impairments are historical experience regarding loan defaults, current data regarding delinquencies, and information on rating classes and scoring. These factors are augmented by relevant forward-looking information (such as forecasts regarding economic performance indicators).

In the customer financing business, the amount of the impairment is initially determined by the anticipated 12 month loan loss. Should the credit risk at the balance sheet date significantly exceed that on initial recordation, then the impairment is measured by the loan losses expected over the remaining lifetime of the loan (residual maturity). For receivables from operating leases, a simplified procedure is followed whereby the amount of the loan loss impairment is measured upon initial recognition of the receivable by the loan losses expected over the period until maturity. This applies as well to receivables from operating leases where the credit risk has increased significantly. These situations are reflected by recognizing group-based loan loss impairments at the individual contract level. Where there is an imminent risk of default, a specific loan loss impairment is recognized that is likewise measured by the loan loss over the remaining time to maturity.

For receivables from dealer and importer financing, a loan loss impairment is recorded in the amount of the loan losses expected over the remaining time to maturity where the credit risk has significantly increased. The 12 month loan loss is applied to non-anomalous exposures. Both are recorded at the individual contract level as group-based loan loss impairments for latent risks. In the case of all market counterparties that are at imminent risk of default or in default, specific loan loss impairments are recognized in the amount of expected credit losses over the remaining loan lifetime.

Bonds and other fixed-income securities are stated at cost. The valuation of securities classified as current assets is based on the strict principle of the lower of cost or market value. Securities from asset-backed security transactions (ABS) are initially measured at their acquisition cost. The valuation of ABS classified as fixed assets is based on the intended holding period until maturity and the modified lower-of-cost-or-market principle.

Shares in affiliated companies are stated at cost and written down to their fair value if impaired permanently.

Leased assets are stated at cost less accumulated scheduled amortization and depreciation. The vehicles capitalized as leased assets are written down to their contractual residual value on a straight line basis while taking account of the individual term of the underlying lease contract. Depreciation is taken on a monthly basis. Where the projected fair value at the start of the contract is lower than the contractual residual carrying amount but higher than the realizable amount, all newly acquired contracts from fiscal year 2019 on are written down to the projected fair value on a monthly straight-line basis. For this purpose, the realizable amount is the present value of the anticipated future cash flow from the leases including lease-end disposition. If the realizable amount is less than the currently projected residual carrying value, the difference is recognized as an impairment loss. At each reporting date, impairment losses recognized in previous reporting periods are reviewed to determine whether they are still warranted or have declined in amount. In these cases, the carrying amount is raised to the realizable amount or to cost less scheduled depreciation, whichever is less. Assumptions must be made concerning the realizable amount, in particular assumptions concerning cash flow from lease-end disposition. For this purpose, account is taken of internally available data on historical experience, current market data, and the forecasts of external institutions. The assumptions are periodically validated by comparison with external data.

Property, plant and equipment are stated at cost less accumulated scheduled straight-line depreciation over the asset's expected useful life and, where required, less impairment losses, if any. Low-value fixed assets with a unit purchase price of EUR 250 or less are fully expensed in the year of acquisition. Assets with a value between EUR 250.01 and EUR 1,000 are grouped into one item, which is released on a straight-line basis over a period of five years.

Other assets are capitalized at their nominal value and generally valued according to the strict lower-of-cost-or-market principle. They consist primarily of financial claims from ABS transactions and tax assets.

Prepaid expenses serve to allocate expense to the proper reporting period and are generally recognized for invoices paid in advance.

Liabilities are stated at their settlement amount.

Deferred income is recognized in particular for leasing down-payments and sales promotions received. Leasing down-payments and sales promotions are released over the term of the lease on a straight-line basis.

Provisions must, under § 253 (1) sent. 2 HGB, be based on reasonable commercial judgment and take account of the necessary settlement amount or net liability arising from all identifiable risks.

Provisions for pensions and similar obligations are measured on the basis of actuarial calculations using the projected unit credit method and taking as a basis a 2.71 % discount rate for pension benefits and a rate of 0.61 % for partial retirement benefits commitments as well as an expected wage and salary increase of 3.04 %. The calculations rely on the Heubeck mortality tables 2018 G (*Heubeck-Richttafeln 2018 G*). Pursuant to § 253 (2) sent. 2 HGB, BMW Bank GmbH uses the average market interest rate over the last ten fiscal years for purposes of discounting its pension provisions. Discounting is standardized and based on the average market interest rate that results assuming the remaining lifetime of the obligation to be 15 years (§ 253 (2) sent. 3 HGB).

BMW Trust e. V., Munich, manages trust fund assets under contractual trust arrangements (CTA) in order to fulfill the obligations arising from pension benefit commitments. The plan assets are stated at their fair value and netted with the corresponding liabilities pursuant to § 246 (2) HGB. Any resulting net liability is stated in **provisions for pensions and similar obligations**. If the value of the plan assets exceeds that of the obligations, the net asset is stated as **surplus of plan assets over pension liabilities**. Distribution of the difference between current market values and the original cost of the CTA assets is prohibited by § 268 (8) HGB. Since this amount is, however, exceeded by the freely available reserves, no prohibition on transfer of profit applies.

The amount of the **fund for general banking risks** under § 340g HGB has been determined based on a reasonable commercial assessment of the financial situation; it serves to strengthen BMW Bank GmbH's equity position (own funds).

Foreign currencies are translated in accordance with § 256a HGB at the spot rate on the reporting date.

The interest rate risk is assessed based on an overall assessment of all interest-bearing transactions by applying the **principle of loss-free valuation**. If the assessment of the overall risk position of the banking book results in a net liability, an expected loss is accrued in accordance with § 249 (1) HGB. The assessment is based on the accounting statement IDW RS BFA 3 (new version), issued by the German Institute of Public Auditors (IDW). Taking into account risk costs and administrative expenses, as of December 31, 2019 the present value of the banking book measured over the total reporting period exceeded the carrying amount of the banking book. Therefore, as in the previous year, no provision for expected losses was required.

BMW Bank GmbH has employed the accounting method authorized by § 340c (2) HGB and the net presentation authorized by § 32 sent. 2 RechKredV.

Interest from interest rate derivatives is reported on a net basis per interest rate derivative. To improve transparency, **negative interest from non-derivative transactions** is shown in the income statement in a separate pre-column under interest income or interest expense, as the case may be.

C. Notes to the Balance Sheet

1. Assets

Receivables from credit institutions

Receivables from credit institutions include receivables from affiliated companies in the amount of EUR 66.7 million (previous year: EUR 636.3 million). The decline results principally from the fact that the subsidiary BMW Finance S.N.C., Guyancourt, France, which was sold in October 2019, now refinances itself largely through another Group company.

Receivables from customers

Receivables from customers include receivables from leasing business in the amount of EUR 1,337.6 million (previous year: EUR 1,217.1 million) as well as EUR 720.9 million (previous year: EUR 814.5 million) for receivables purchased from an affiliated company.

Bonds and other fixed-income securities

This item comprises solely listed securities, including accrued interest, in an amount of EUR 747.9 million (previous year: EUR 901.8 million). Seven securities in an aggregate nominal amount of EUR 246.0 million will mature in the 2020 fiscal year.

The carrying amount of the securities that are eligible to serve as collateral with Deutsche Bundesbank amounts to EUR 361.4 million as of December 31, 2019. No funding from this source was drawn in fiscal year 2019.

Shares in affiliated companies

BMW Bank GmbH sold its 99.99 % ownership interest (EUR 257.4 million) in BMW Finance S.N.C., Guyancourt, France, to BMW AG on October 8, 2019.

Leased assets

As security for third-party liabilities, BMW Bank GmbH transferred title to lease vehicles in the amount of EUR 11,723.1 million (previous year EUR 9,983.5 million), partly in connection with ABS transactions and partly under a loan agreement internal to the Group.

Other assets

This item breaks down as follows:

	12/31/2019	12/31/2018
	EUR million	EUR million
Receivables from affiliated companies from ABS transactions	175.8	230.6
Tax assets	161.9	115.0
Collateral deposited for OTC derivatives	47.8	41.0
Trade receivables	35.6	29.6
Other	51.2	36.6
Other assets	**472.3**	**452.8**

The receivables from affiliated companies from ABS transactions include subordinated debt claims in an amount of EUR 36.0 million (previous year: EUR 42.2 million) as well as quasi-certain pro rata claims legally accruing in the future (excess spread).

The tax assets result primarily from VAT prepayments by the Italian branch (EUR 117.4 million; previous year: EUR 67.2 million).

Other assets include EUR 0.7 million in receivables from the leasing business (previous year: EUR 0.5 million).

2. Equity and Liabilities

Liabilities to credit institutions

As of the reporting date, liabilities to credit institutions amount to EUR 79.0 million (previous year: EUR 135.9 million). The decline is due in particular to the existence in the previous year of an obligation to remit sums received on receivables that had been sold.

Liabilities to customers

This item includes EUR 7,755.2 million in amounts owed to affiliated companies (previous year: EUR 6,161.3 million). EUR 2,750.9 million of this total was secured by the transfer of title to vehicles (previous year: EUR 4,840.4 million).

Other liabilities

This item breaks down as follows:

	12/31/2019	12/31/2018
	EUR million	EUR million
Liabilities from ABS transactions	6,514.7	6,144.1
Trade payables	269.5	267.5
Transfer of profit (loss) to the shareholder	261.4	200.7
Tax liabilities	9.4	10.6
Other	71.4	57.7
Other liabilities	**7,126.4**	**6,680.6**

Other liabilities exist in particular vis-à-vis Bavarian Sky S.A., Luxembourg, a special purpose vehicle, and result from ABS transactions. At BMW Bank GmbH, the future residual values of the lease vehicles as well as future leasing receivables and customer financing receivables are securitized through the special purpose vehicle. These increased from EUR 6,144.1 to EUR 6,514.7 million in the fiscal year elapsed. Two ABS transactions expired in 2019 and were replaced by two new transactions of greater volume.

Deferred income

This item breaks down as follows:

	12/31/2019	12/31/2018
	EUR million	EUR million
Leasing down-payments	428.6	348.3
Interest subsidies	258.6	244.0
Prepaid interest from the lending business	44.1	38.3
Other	18.1	7.6
Deferred income	**749.4**	**638.2**

Provisions for pensions and similar obligations

The cost of the assets used to fund retirement benefits amounts to EUR 65.8 million (previous year: EUR 59.2 million). The assets had a fair value of EUR 84.3 million as of the reporting date (previous year: EUR 69.8 million). Corresponding liabilities amount to EUR 63.3 million (previous year: EUR 54.3 million). In 2019, the offsetting of plan assets and liabilities resulted in EUR 11.1 million in expense (previous year: EUR 8.9 million); this was netted against corresponding income of EUR 12.8 million (previous year: EUR 0.0 million).

Partial retirement commitments are covered by a bank guarantee. Liabilities exist in an amount of EUR 2.4 million (previous year: EUR 2.0 million). EUR 0.7 million in expense was recognized in fiscal year 2019 (previous year: EUR 1.0 million); there was no income (previous year: EUR 0.0 million).

The acquired plan assets were stated at their fair value and netted with the pensions and similar liabilities in accordance with § 246 (2) HGB. BMW Bank GmbH has two pension plans: "pension commitment" and "retirement capital." The plan assets are linked to the corresponding pension plan. For the "pension commitment" plan, the surplus (net asset) remaining after netting amounted to EUR 23.3 million (previous year: EUR 17.7 million). For the "retirement capital" plan, the deficit (net liability) after netting was EUR 2.3 million (previous year: EUR 2.2 million); this was included in a pension provision. The provision for partial retirement pensions amounted to EUR 2.4 million (previous year: EUR 2.0 million).

In fiscal year 2019, the compounding of discounted pension provisions led to interest expense in an amount of EUR 8.4 million (previous year: EUR 6.6 million).

The difference between discounting pension provisions using a 10 year average rate (EUR 63.1 million; previous year: EUR 54.0 million) and a 7 year average rate (EUR 73.5 million; previous year: EUR 65.2 million) was EUR 10.4 million (previous year: EUR 11.2 million).

Other provisions

Other provisions comprise the following items:

	12/31/2019	12/31/2018
	EUR million	EUR million
Litigation and collection costs	43.5	35.9
Outstanding invoices	43.2	41.2
Commissions payable	36.9	37.3
Personnel matters	26.9	28.8
Other	68.8	70.3
Other provisions	**219.3**	**213.5**

Fund for general banking risks

The special item **fund for general banking risks** pursuant to § 340g HGB increased year-on-year to EUR 1,300.0 million (previous year: EUR 1,080.0 million). The increase takes the form of a direct addition from current-year net income in an amount of EUR 110.0 million combined with the conversion of risk reserves existing under § 340f HGB into § 340g HGB allowances (reversal § 340f HGB / addition § 340g HGB), likewise in an amount of EUR 110.0 million. BMW Bank GmbH thereby strengthens its own funds for regulatory purposes.

Equity

Subscribed capital (EUR 12.3 million), capital reserve (EUR 1,972.2 million), and retained earnings (EUR 3.2 million) are unchanged compared with the previous year.

D. Notes to the Income Statement

Net interest income

The net interest income of EUR 499.3 million (previous year: EUR 487.2 million) reflects primarily (i) the income derived from customer, dealer, and importer financing, (ii) the expense of the ongoing refinancing of the asset operations including the leased assets, and (iii) the results of interest rate hedging.

Net leasing income

The EUR 2,029.9 million in net leasing income (previous year: EUR 1,822.8 million) reflects mainly the income generated from leasing contracts and service fees, the expenses from termination of leases, and service components (e.g. repairs, insurance, vehicle tax).

Net commission income

The negative net commission income of EUR 121.1 million (previous year: EUR 124.6 million) includes above all income relating to customer and dealer financing, the leasing business, and insurance brokerage services. This revenue was offset, in particular, by commission expenses for the brokerage of customer agreements.

Other operating income

Other operating income comprises the following items:

	12/31/2019	12/31/2018
	EUR million	EUR million
Income from customer business	71.8	70.0
Claims settlement compensation receivable	57.1	57.6
Reversal of provisions	35.5	35.9
Income from service level agreements	16.1	25.9
Income from currency conversion gains	11.6	0.0
Other	54.7	41.5
Other operating income	**246.8**	**230.9**

The increase in other operating income compared with last year is due in particular to currency conversion effects.

EUR 119.1 million in income (previous year: EUR 117.1 million) is attributable to the leasing business and results from insurance claim settlement, from fees, and from vehicle seizures.

Depreciation of leased assets

Depreciation expenses on leased assets amount to EUR 1,733.7 million (previous year: EUR 1,581.7 million).

Other operating expenses

Other operating expenses comprise the following items:

	12/31/2019	12/31/2018
	EUR million	EUR million
Levies and charges	37.4	32.7
Derecognition of vehicles at end of lease agrmt.	30.3	14.6
Additions to provisions	25.8	11.9
Legal and collection costs	12.7	82.7
Expense from currency conversion losses	11.6	0.0
Other	25.5	31.1
Other operating expenses	**143.3**	**173.0**

Other operating expenses have declined in particular because of lower legal and collection costs related to the one-time influence of a regulatory fine in Italy in fiscal year 2018.

Other operating expenses include costs of the leasing business in the amount of EUR 46.5 million (previous year: EUR 34.4 million).

Writedowns / writeups and reversals of / additions to impairments of receivables

From net expense of EUR 118.9 million in the previous year, writedowns and impairments of receivables and certain securities have improved by EUR 164.0 million, thus yielding net income of EUR 45.1 million in 2019. Expense of EUR 57.7 million results for 2018 without the one-time effects from modifying the loan loss impairment methodology effective January 1, 2018 (reversal in an amount of EUR 78.8 million) and from the addition to the risk adjustment per § 340f HGB (EUR 140.0 million). The expense for 2019 is EUR 64.9 million, i.e. EUR 7.2 more than the prior year figure ignoring one-time influences, without the reversal of the adjustment for general banking risks under § 340f HGB in an amount of EUR 110.0 million.

Direct writeoffs of receivables amounted to EUR 21.6 million (previous year: EUR 24.9 million). Income from receivables previously written off declined from EUR 11.1 million to EUR 5.7 million. Income in an amount of EUR 45.1 million thus resulted in 2019.

Income taxes

Taxes on income and earnings (EUR 60.6 million; previous year: EUR 56.2 million) reflect almost exclusively the income taxes of the foreign branches.

E. Other Notes

1. Subsequent events

The pandemic triggered by the coronavirus has intensified in recent weeks and is posing enormous challenges for the world community. This confronts BMW Bank with major uncertainties, particularly with regard to new business volume and risk allowances. It is impossible to quantify the financial repercussions at this time. Depending on the situation's duration and intensity, the possibility of negative effects on BMW Bank must be anticipated.

Otherwise, no events of special significance for the net assets, financial position, and results of operations of BMW Bank occurred after the end of the fiscal year.

2. Amounts owed by and to the shareholder and other affiliated companies in accordance with § 42 (3) of the German Limited Liability Companies Act (GmbHG) and § 3 of the German Accounting Regulation for Banks and Financial Service Institutions (RechKredV)

The following table summarizes these items as of 12/31/2019 and 12/31/2018:

12/31/2019	Shareholder	Other affiliated companies	Total
	EUR million	EUR million	EUR million
Receivables from credit institutions	0.0	66.7	66.7
Receivables from customers	0.4	168.7	169.1
Other assets	1.4	182.2	183.6
Liabilities to customers	0.1	7,755.1	7,755.2
Other liabilities	390.0	6,534.5	6,924.5

12/31/2018	Shareholder	Other affiliated companies	Total
	EUR million	EUR million	EUR million
Receivables from credit institutions	0.0	636.3	636.3
Receivables from customers	0.5	14.6	15.1
Other assets	1.0	235.0	236.0
Liabilities to customers	18.1	6,143.2	6,161.3
Other liabilities	306.5	6,186.4	6,492.9

3. Residual maturities

Residual maturities are presented below in accordance with § 340d HGB in conjunction with § 9 (2) RechKredV (net of impairments). In accordance with § 11 RechKredV, accrued interest is not included in these residual maturities.

12/31/2019	Up to three months	More than three months and up to one year	More than one year and up to five years	More than five years	Of indefinite duration	Total
	EUR	EUR million	EUR million	EUR	EUR million	EUR
Other receivables from credit institutions	4.0	61.0	1.5	0.0	0.0	66.5
Receivables from customers	3,976.1	3,644.2	7,064.6	82.1	32.3	14,799.3
Liabilities to credit institutions with an agreed maturity or cancellation period	49.9	0.0	0.0	0.0	0.0	49.9
Other liabilities to customers with an agreed maturity or cancellation period	996.7	2,463.7	5,752.1	26.6	0.0	9,239.1

12/31/2018	Up to three months	More than three months and up to one year	More than one year and up to five years	More than five years	Of indefinite duration	Total
	EUR	EUR million	EUR million	EUR	EUR million	EUR
Other receivables from credit institutions	41.0	330.5	188.5	0.0	0.0	560.0
Receivables from customers	2,125.1	3,241.5	8,306.9	134.4	26.2	13,834.1
Liabilities to credit institutions with an agreed maturity or cancellation period	49.9	0.0	0.0	0.0	0.0	49.9
Other liabilities to customers with an agreed maturity or cancellation period	1,275.4	2,465.5	4,078.6	106.6	0.0	7,926.1

4. Statement of fixed assets

Changes in fixed assets are presented in the statement of fixed assets (Attachment 1 hereto).

5. Country-specific reporting pursuant to § 34 II RechKredV

The following table provides an overview of the income generated by the various branches in their respective countries:

	Italy		Spain		Portugal	
	EUR million		EUR million		EUR million	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Interest income	162.9	154.2	132.9	116.3	16.1	16.8
Commission income	27.5	16.6	14.9	14.7	1.4	2.9
Other operating income	74.0	80.3	48.1	17.1	5.3	4.8

BMW Bank GmbH furthermore recorded income from worldwide financing of BMW Importers in the amount of EUR 8.8 million (previous year: EUR 10.1 million), of which EUR 5.2 million stemmed from business transacted in USD (previous year: EUR 5.8 million). Due to the low level of income derived outside the EU compared to total income, this is not disclosed separately.

6. Derivative financial instruments

BMW Bank GmbH hedges part of the interest rate risk on a portfolio basis. Interest rate swaps are the hedging instrument used for this purpose. The Company exercises the accounting option to account for this economic hedging relationship by means of a **valuation unit** in accordance with § 254 HGB and to present this valuation unit using the net method. A total of EUR 7.5 billion in hedged items on the assets side (receivables from customers) and EUR 7.5 billion in hedged items on the liabilities side (amounts owed to customers) are included in a hedging valuation unit. The Company's interest rate risk exposure of EUR 3.5 million at the reporting date has been hedged based on EURIBOR or EONIA.

Given the average financing and leasing term of three years and the regular, rolling adjustment of hedges to the portfolio structure, the Company's risk strategy is expected to hedge against future opposite changes in value. The hedging relationship is therefore expected to be highly effective.

A regression analysis is used for prospective testing to determine the effectiveness of the hedge. Retrospective testing to determine the effectiveness of the hedging relationship is based on a regression analysis as well. For accounting purposes, the changes in fair value of the hedged items are compared with those of the hedging instruments. Any net loss in the ineffective portion of the hedge resulting from a negative change in the fair value of the hedged items or the hedging instruments is recognized in profit or loss by recording a provision for an expected loss under the imparity principle of § 249 HGB.

Derivative financial instruments not accounted for in valuation units are summarized in the following table at the respective reporting dates:

	2019		2018	
	Nominal amount EUR million	**Fair value** EUR million	**Nominal amount** EUR million	**Fair value** EUR million
Interest rate swaps with positive fair values	1,829.2	3.4	2,828.9	1.6
Interest rate swaps with negative fair values	1,662.2	-2.0	255.0	-0.1
Derivative financial positions	**3,491.4**	**1.4**	**3,083.9**	**1.5**

These derivative financial instruments were entered into solely and exclusively to cover interest rate risks relating to the ABS transactions.

The fair value of swaps was measured in line with their present value, which was calculated by discounting the variable and fixed interest payments based on the interest rate term structure at the reporting date. The negative fair values of derivative financial instruments not accounted for in valuation units are included in other provisions and had a carrying amount of EUR 2.0 million as of December 31, 2019 (previous year: EUR 0.1 million).

7. Contingent liabilities and commitments

Irrevocable loan commitments (committed credit facilities) exist for dealer financing (EUR 113.8; previous year: EUR 101.0 million) and for customer financing (EUR 7.0 million; previous year: EUR 5.3 million). These may be drawn on at any time. There were no irrevocable loan commitments to affiliated companies at the reporting date (previous year: EUR 28.0 million).

The contingent liabilities consist of liabilities from obligations as surety / guarantor and amount to EUR 0.8 million (previous year: EUR 0.8 million). The risk of having to meet these obligations is deemed minimal as there were no identifiable risks as of the reporting date.

8. Off-balance sheet transactions and other financial commitments

BMW Bank GmbH's other financial commitments amounted to EUR 59.9 million as of the reporting date (previous year: EUR 65.8 million). They consist primarily of commitments to BMW AG from the invoicing of outsourced IT services (EUR 56.4 million; previous year: EUR 63.9 million). These will also be recognized in expenses in the year to follow.

9. Translation of foreign currency items

The translation of foreign currency items is summarized in the following table:

	12/31/2019		12/31/2018	
	USD million	EUR million	USD million	EUR million
Receivables from credit institutions	26.8	23.9	48.8	42.7
Receivables from importer financing	219.2	195.3	226.0	197.7
Receivables from subsidies Importer financing	0.5	0.4	0.6	0.5
Liabilities from importer financing	246.0	219.2	274.8	240.3

10. Management Board and Supervisory Board

Members of the Management Board

The members of the Management Board are as follows:

Hans-Jürgen Cohrs
Chairman of the Management Board

Hans-Peter Mathe
Head of Sales and Marketing
Head of Direct Sales and Refinancing

Dr. Winfried Müller (since 2/1/2020)
Head of Finance

Dr.-Ing. Markus Walch
Head of Customer Service, Processes, IT

Thomas Weber
Head of Risk Management
Head of Finance (until 1/31/2020)

The members of the Management Board serving in the reporting year received total remuneration of EUR 2.3 million (previous year: EUR 2.7 million) for their services in the reporting year.

Members of the Supervisory Board

Dr. Thomas Wittig
Chairman of the Supervisory Board
Head of Financial Services for the BMW Group
Bayerische Motoren Werke Aktiengesellschaft*

Birgit Böhm-Wannenwetsch
Head of Group Finance for the BMW Group

Guido Boschetto
Deputy Chairman of the Supervisory Board
Member of the Works Council of BMW Bank GmbH, Munich

Horst Erik Fischer
Member of the Works Council of BMW Bank GmbH, Munich

Heike Schneeweis
Head of Human Resources / BMW Group Senior Executives

Jonathan Townend
Head of Group Reporting & Taxes for the BMW Group
BMW Österreich Holding GmbH, Steyr*

The members of the Supervisory Board received no remuneration for their services.

11. Number of employees

The average number of employees increased to 1,160 (previous year: 1,150); of these, 156 work part-time (previous year: 146).

	2019	2018
Germany, Munich	759	749
Branches		
Italy, San Donato Milanese	208	215
Spain, Madrid	148	140
Portugal, Porto Salvo	45	46
Total employees	**1,160**	**1,150**

* Membership in comparable domestic or foreign supervisory bodies.

12. Auditor's services and fees

The services rendered in fiscal year 2019 to BMW Bank GmbH by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, the statutory auditor of BMW Bank GmbH, relate to statutory audit services and other assurance services.

The statutory audit services principally comprise auditing the annual single-entity financial statements, reviewing the IFRS reporting for the Group interim consolidated financial statements of BMW AG, and auditing the IFRS reporting for the Group consolidated financial statements of BMW AG.

Other assurance services consist primarily of contractually agreed or voluntarily commissioned assurance services (services pursuant to ISAE 3000 and ISRS 4400 in the context of ABS transactions).

The auditor's total fee for fiscal year 2019 is disclosed in the consolidated financial statements of Bayerische Motoren Werke Aktiengesellschaft, Munich.

13. Group accounting

BMW Bank GmbH is included in the consolidated financial statements of BMW AG, Munich, which are prepared in accordance with § 315e HGB (minimum and maximum scope of consolidation within the meaning of § 285 nos. 14 and 14a HGB). The Company therefore applies the exemption from preparing consolidated financial statements set out in § 291 HGB. Both the annual financial statements of BMW Bank GmbH and the consolidated financial statements of BMW AG will be published in the Federal Bulletin.

Munich, March 18, 2020

The Management

[Signature]
Hans-Jürgen Cohrs

[Signature]	[Signature]	[Signature]	[Signature]
Hans-Peter Mathe	Dr. Winfried Müller	Dr.-Ing. Markus Walch	Thomas Weber

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Statement of fixed assets

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<u>Attachment 1</u>

Statement of Fixed Assets of BMW Bank GmbH, Munich, for Fiscal Year 2019

	Acquisition costs					Accumulated depreciation						Carrying amounts	
	1/1/2019	Additions	Disposals	Transfer	12/31/2019	1/1/2019	Additions	Write-ups	Disposals	Transfer	12/31/2019	12/31/2019	12/31/2018
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
I. Bonds and other fixed-income securities	371,200	157,000	145,300	-	382,900	-	-	-	-	-	-	382,900	371,200
II. Shares in affiliated companies	257,426	-	257,426	-	-	-	-	-	-	-	-	-	257,426
III. Leased assets	12,580,916	5,793,470	3,741,739	-	14,632,647	2,513,858	1,733,739	-	1,499,612	-	2,747,985	11,884,662	10,067,058
IV. Property, plant, and equipment*	6,103	101	1,324	-	4,880	4,047	251	-	219	-	4,079	801	2,056
	13,215,645	**5,950,571**	**4,145,789**	**-**	**15,020,427**	**2,517,905**	**1,733,990**	**-**	**1,499,831**	**-**	**2,752,064**	**12,268,363**	**10,697,740**

*Consist primarily of operating and office equipment

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Country-Specific Reporting Pursuant to § 26a (1) KWG as of 12/31/2019 for BMW Bank GmbH, Munich

Under § 26a (1) sent. 2 of the German Banking Act (KWG), CRR institutions are required to include an annex to their annual financial statements disclosing on a consolidated basis the following information for each member state of the European Union and each third country in which they have a branch:

1. names, nature of activities, and geographical location of the branches
2. turnover
3. number of employees
4. profit or loss before tax
5. taxes on profit or loss
6. public subsidies received

The core business segments of BMW Bank GmbH, Munich, are customer and dealer financing, the leasing business, and the deposit banking business. Turnover was determined based on the operating result without impairments and administrative expenses, including net interest income, net commission income, net trading income, and other operating income.

The number of employees was determined in accordance with the provisions of § 267 (5) of the Commercial Code (HGB). Persons acting pursuant to independent contracts for the management of the affairs of another (independent service level contracts) were not counted as employees.

Before tax profit is determined by increasing net income by income taxes and other taxes on a consolidated basis. Deferred taxes are disregarded for purposes of the reported taxes on profit. These represent the taxes on income for the respective fiscal year as determined from the local financial statements. Since a profit and loss transfer agreement with BMW AG, Munich, exists, the taxes on the profit of BMW Bank GmbH, Munich, are borne by BMW AG under the rules governing tax consolidation. No public subsidies were received.

The majority interest held in the French subsidiary BMW Finance S.N.C., Guyancourt, France, was sold to BMW AG on October 8, 2019.

The required disclosures for 2019 were as follows (in EUR million):

Name	Country	Turnover	Number of employees	Before tax profit	Taxes on profit
BMW Bank GmbH	Munich, Germany	2,244.66	759	135.95	0.08
BMW Bank GmbH Succursale Italiana	San Donato Milanese, Italy	242.41	208	107.08	36.82
BMW Bank GmbH Sucursal en Espana	Madrid, Spain	149.38	148	70.45	21.35
BMW Bank GmbH Sucursal Portuguesa	Porto Salvo, Portugal	18.47	45	9.47	2.33

The comparison figures for 2018 were (in EUR million):

Name	Country	Turnover	Number of employees	Before tax profit	Taxes on profit
BMW Bank GmbH	Munich, Germany	2,061.00	749	159.44	0.05
BMW Bank GmbH Succursale Italiana	San Donato Milanese, Italy	225.88	215	27.85	36.98
BMW Bank GmbH Sucursal en Espana	Madrid, Spain	108.21	140	57.42	15.73
BMW Bank GmbH Sucursal Portuguesa	Porto Salvo, Portugal	21.20	46	13.15	3.47
BMW Finance S.N.C.	Guyancourt, France	335.83	173	81.38	15.99

Section 26a KWG (German Banking Act) defines return on assets as the quotient of net profit divided by the balance sheet total (total assets). Because of the profit and loss transfer agreement, the return on assets of the group of financial institutions under BMW Bank GmbH, Munich, was 0.00 % in 2019 (2018: 0.00 %).