Supplementary information on agenda item 9.3:

Annual Financial Statements and Management Report for BMW Bank GmbH as of 31 December 2020

BMW Bank GmbH, Munich
Management Report 2020

1. Business Report

1.1 General economic situation

In 2020 the coronavirus crisis sent the world economy into a slump the likes of which had not been seen since the Great Depression of the 1930s. The IMF estimates the drop in global gross domestic product (GDP) at 3.5 % compared with 2019. A significant decline in economic output was observable in all of the G7 countries. All of the BRIC countries except China also experienced major contractions. In the United Kingdom (UK), GDP plunged by 11.2 % in 2020. This was due not just to the impact of the coronavirus pandemic, but also to continuing uncertainty regarding the terms of the Brexit treaty defining the future relationship with the European Union (EU).

In the United States, GDP sank by 3.7 % in the reporting year. The lockdown in conjunction with the lack of job-preserving payroll assistance programs sent the unemployment rate up significantly. Consumer confidence and exports plunged dramatically at times. Corporate investments and industrial production declined markedly. The U.S. Federal Reserve Board responded to the economic situation by further reducing key interest rates. China was the only major economy able to post growth in 2020, but this amounted to just 2.0 % and was far below last year's figure. The spring lockdowns practically paralyzed private consumer demand in all markets. However, a powerful rebound beginning in the early summer and lasting through the end of the year brought a measure of economic recovery.

The economy suffered more in Europe than in other major regions. There was a large drop of 7.6 % in eurozone economic activity compared with the previous year. The major eurozone economies all experienced sharply negative growth: Germany -5.7 %, France -9.6 %, Italy -9.3 %, and Spain -11.8 %. Weeks of lockdown temporarily brought many sectors of the economy to a complete standstill, causing both production and consumption to drop markedly. While unemployment rose in all countries, countermeasures such as Germany's payroll assistance program were at least partially effective in limiting this trend. The national governments initiated extensive stimulus packages to support the economy. However, the relief programs caused government spending to expand in 2020 and resulted in higher public debt ratios for the respective countries.

The IFO Business Climate Index, a leading indicator of economic development in Germany, fell in 2020 to finish the year at 92.1, i.e. 4.2 points below where it was at the end of fiscal year 2019. While companies are more optimistic than in November 2020, when the IFO Index stood at just 90.9, they are more cautious than last year in assessing both the current business situation and their expectations. Despite the second lockdown, the German economy is displaying resilience overall.[1]

1.2 Industry-specific situation

The eurozone's key interest rate remained at 0.0 % in 2020.[2] Given the limited consumption possibilities due to the pandemic, the savings rate of German private households rose significantly from 10.9 % in 2019 to 17.1 % at the end of 2020. In Germany, monetary assets continue to be held particularly in cash and demand deposits despite the persistence of low yields.[3]

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[1] IFO Institute, Results of the December 2020 Business Survey (https://www.ifo.de/node/60733)

[2] Statista, Changes in the Interest Rate of the European Central Bank Through 2020, 2021 (https://de.statista.com/statistik/daten/studie/201216/umfrage/ezb-zinssatz-fuer-das-hauptrefinanzierungsgeschaeft-seit-1999/)

[3] Deutsche Bundesbank, Monthly Report for December 2020, vol. 72, no. 12 (https://www.bundesbank.de/de/publikationen/berichte/monatsberichte/monatsbericht-dezember-2020-852926)

The IFO Business Climate Index for the personal property leasing sector plunged to -37.90 in April 2020 because of the coronavirus crisis, but then rose again to finish the year at 1.1. However, this indicator remains far below where it was last year (26.50).[4]

The repercussions of the coronavirus pandemic caused automobile markets around the world to contract in 2020. Worldwide, new registrations of cars and light utility vehicles dropped sharply (by 13.3 %) in the reporting period to 72.4 million vehicles overall.

The decline is attributable to the European automobile markets in particular, which contracted by -24.3 % overall, with Spain (-32.3 %), Italy (-27.7 %), and Germany (-19.1 %) leading the decline.

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.

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, 2020 are broken down by regions in the following table:

Total lendings EUR million	Germany	Italy	Spain	Portugal	BMW Bank GmbH
Customer financing	5,054.4	2,826.1	1,866.4	294.7	**10,041.6**
Dealer and importer financing	2,144.1	616.0	283.4	159.3	**3,202.8**
Operating leases (leased assets)	12,658.6	280.9	36.3	0.0	**12,975.8**
Total	**19,857.1**	**3,723.0**	**2,186.1**	**454.0**	**26,220.2**

Number of new contracts	Germany	Italy	Spain	Portugal	BMW Bank GmbH
Customer financing	92,462	44,099	31,082	5,227	**172,870**
Dealer and importer financing	292,177	63,721	54,229	19,509	**429,636**
Operating leases (leased assets)	140,944	5,402	4,561	0	**150,907**
Total	**525,583**	**113,222**	**89,872**	**24,736**	**753,413**

Number of existing contracts	Germany	Italy	Spain	Portugal	BMW Bank GmbH
Customer financing	305,107	172,457	105,229	19,078	**601,871**
Dealer and importer financing	69,962	12,424	9,436	3,495	**95,317**
Operating leases (leased assets)	414,134	8,734	5,471	0	**428,339**
Total	**789,203**	**193,615**	**120,136**	**22,573**	**1,125,527**

[4] Bundesverband deutscher Leasing-Unternehmen [Federation of German Leasing Companies], 2020 (https://bdl.leasingverband.de/leasing/marktzahlen/geschaeftsklima-leasing/)

2.2 Products and services

2.2.1 Retail business

BMW Bank GmbH provides financing and leasing 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.

2.2.3 Importer financing

In addition to dealer financing, the Bank also extends loans to importers to finance BMW Group products. 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 open and manage their 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 and 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 plans for leasing and financing customers; these plans cover loan or lease payments payments for customers 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 death.

3. Analysis of business development

3.1 Business development

Due to the strongly negative impact of the coronavirus pandemic on the economy as a whole, the number of new contracts in the retail business of BMW Bank GmbH in 2020 fell short of last year's figure. The total number of new contracts was 323,777 (previous year: 349,282 contracts). This resulted above all from a contraction in new customer financing in Germany and Spain. Nevertheless, the total number of contracts in the retail business of BMW Bank GmbH increased by 2.9 % to 1,030,210 contracts (previous year: 1,001,304) due to growth in the leasing portfolio.

In the dealer financing business, the total number of contracts held by BMW Bank GmbH at year's end dropped by 28.2 % to 72,486 contracts (previous year: 101,023). This was partly attributable to to an interruption in production due to the coronavirus crisis.

In importer financing, the total number of contracts held by BMW Bank GmbH rose from 20,784 contracts in the previous year to 22,831 contracts.

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.

The deposit volume of BMW Bank GmbH expanded to EUR 10.6 billion, thus surpassing the mark of EUR 10 billion for the first time (previous year: EUR 9.3 billion). This represents a 14.0 % increase. The EUR 1.3 billion increase in deposit volume was attributable to special offers in 2020 for fixed-term deposits.

Given that BMW Bank GmbH concluded fiscal year 2020 with positive net operating income, management assesses the overall business development as satisfactory. The break-even result for the year reflects in part a considerable increase in the allowances for credit and residual value risks in response to the special coronavirus situation and its associated imponderables. These allowances were calculated on the basis of selected scenarios. Furthermore, the special item for general banking risks (§ 340g HGB – Commercial Code) was also increased by EUR 162.5 million.

3.2 Net assets and financial position

The total assets of BMW Bank GmbH expanded by EUR 61.7 million to EUR 28.7 billion in 2020. The increase resulted principally from increases in cash reserves and leased assets. The primary countervailing factor was a decline in receivables from customers. As a result of the greater refinancing requirements, the increase was reflected on the liabilities side above all in higher amounts for liabilities to customers and for the fund for general banking risks. This was partially offset by the change in Other Liabilities.

3.2.1 Assets

Changes in assets are summarized in the following table:

	12/31/2020	12/31/2019	Change
	EUR million	EUR million	EUR million
Cash reserve	1,193.4	240.8	952.6
Receivables from credit institutions	202.5	491.0	-288.5
Receivables from customers	13,293.9	14,799.3	-1,505.4
Bonds and other fixed-income securities	480.4	747.9	-267.5
Fixed assets	12,976.2	11,885.5	1,090.7
Leased assets	12,975.8	11,884.7	1,091.1
Property, plant, and equipment	0.4	0.8	-0.4
Other assets	550.4	472.3	78.1
Prepaid expenses	4.8	6.4	-1.6
Surplus of plan assets over pension liabilities	26.6	23.3	3.3
Total assets	**28,728.2**	**28,666.5**	**61.7**

The EUR 952.6 million increase in the **cash reserve** resulted in particular from current account deposits with Deutsche Bundesbank.

The decreased **receivables from credit institutions** were due primarily to a decline in the amounts held in current accounts and as overnight deposits with third-party banks.

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

	12/31/2020	12/31/2019	Change
	EUR million	EUR million	EUR million
Customer financing	10,041.6	10,329.7	-288.1
Germany	5,054.4	5,386.4	-332.0
Italy	2,826.1	2,805.3	20.8
Spain	1,866.4	1,853.0	13.4
Portugal	294.7	285.0	9.7
Dealer financing	2,474.7	3,602.1	-1,127.4
Germany	1,416.0	2,044.0	-628.0
Italy	616.0	907.0	-291.0
Spain	283.4	450.5	-167.1
Portugal	159.3	200.6	-41.3
Importer financing (Germany)	728.1	680.6	47.5
Operating leases	7.7	13.2	-5.5
Germany	4.7	12.3	-7.6
Italy	2.8	0.8	2.0
Spain	0.2	0.1	0.1
Other receivables	41.8	173.7	-131.9
Receivables from customers	**13,293.9**	**14,799.3**	**-1,505.4**

<u>Customer financing</u>
The change in the volume of loan receivables was due to the marked decline in Germany. Gross receivables rose slightly in Italy, Spain, and Portugal. Loan loss impairments increased significantly in all countries in particular in light of the coronavirus crisis.

<u>Dealer financing</u>

The volume of receivables from dealer financing declined significantly in all countries compared with the previous year. Here as well, considerably higher loan loss impairments (EUR 68.0 million more year-on-year) had to be recognized due to the special coronavirus situation.

<u>Importer financing</u>

The slightly higher volume of importer financing receivables was above all a consequence of the positive performance in the United Arab Emirates and Hong Kong.

<u>Other receivables</u>, consisting primarily of receivables from affiliated companies, declined 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 2020 (EUR 116.0 million; previous year: EUR 364.9 million).

In 2020, **leased assets** once again rose significantly from EUR 11,884.7 million to EUR 12,975.8 million due to the continuing strength of new contract volume.

Other assets consist primarily of receivables from ABS transactions (EUR 194.4 million), tax assets belonging to branches (EUR 177.9 million), and trade receivables (EUR 112.3).

3.2.2 Equity and Liabilities

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

	12/31/2020	12/31/2019	Change
	EUR million	EUR million	EUR million
Liabilities to credit institutions	74.8	79.1	-4.3
Liabilities to customers	17,748.6	17,165.3	583.3
Other liabilities	6,243.5	7,126.4	-882.9
Deferred income	790.2	749.4	40.8
Provisions	333.4	258.6	74.8
Fund for general banking risks	1,462.5	1,300.0	162.5
Equity	2,075.2	1,987.7	87.5
Total equity and liabilities	**28,728.2**	**28,666.5**	**61.7**

The right side of the balance sheet reflects above all the refinancing of business operations. This refinancing was almost exclusively in euros. BMW Bank GmbH refinanced its operations through its deposit business, several ABS transactions, and borrowing from Group and non-Group lenders. A small amount of refinancing was also obtained in USD for importer financing purposes.

Maturity structures at the balance sheet date ranged from due on demand to ten years (with 94.3 % maturing within three years). Interest rates vary depending on the market trend. The average interest rate as of the reporting date was 0.17 %.

Liabilities to credit institutions fell slightly to EUR 74.8 million (previous year: EUR 79.1 million).

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

	12/31/2020	12/31/2019	Change
	EUR million	EUR million	EUR million
Savings deposits	3,357.9	3,754.9	-397.0
Other liabilities	14,390.7	13,410.4	980.3
of which from overnight and term deposits	7,290.3	5,566.0	1,724.3
of which to affiliated companies	7,001.3	7,755.2	-753.9
of which other	99.1	89.2	9.9
Liabilities to customers	**17,748.6**	**17,165.3**	**583.3**

BMW Bank GmbH met its payment obligations at all times in fiscal year 2020 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 300.0 million, on which it has not 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 declined from EUR 6,514.7 to EUR 5,924.1 million in the fiscal year elapsed. One ABS transaction expired in 2020 and was replaced by a new transaction; in addition, another ABS transaction was entered into and then terminated during the fiscal year.

The increase in **deferred income** resulted principally from higher leasing downpayments, which are a consequence of growth in the leasing business.

The special item **fund for general banking risks** pursuant to § 340g HGB increased year-on-year to EUR 1,462.5 million (previous year: EUR 1,300.0 million). BMW Bank GmbH thereby strengthened 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 4.7 below. The following table shows the own funds, own funds requirements, and key ratios of BMW Bank GmbH:

	12/31/2020	12/31/2019
	EUR million	EUR million
Own funds	3,209.7	2,912.0
Tier 1 capital	3,209.7	2,912.0
Common Equity Tier 1 capital	3,209.7	2,912.0
Additional Tier 1 capital	0.0	0.0
Tier 2 capital	0.0	0.0
Risk-weighted assets	**21,340.6**	**21,066.0**
Capital ratios	**in %**	**in %**
Common Equity Tier 1 capital ratio[5]	15.0	13.8
Tier 1 capital ratio[6]	15.0	13.8
Total capital ratio[7]	15.0	13.8

The existing equity ratio ensures 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 of BMW Bank GmbH increased compared with the previous year. The increase is primarily attributable to the addition of EUR 87.5 million to the capital reserve and the addition of EUR 220.0 million to the § 340g HGB reserve. The share capital of EUR 12.3 million is not counted for the time being pending amendment of the profit and loss transfer agreement.

The increase in the capital ratio by 1.2 percentage points is consistent with the increase in own funds and the somewhat higher amount of risk-weighted assets.

The EUR 162.5 million increase in the § 340g HGB reserve in the annual financial statements as of December 31, 2020 has no effect on the own funds ratio until the shareholder adopts the annual financial statements. Taking account of § 340g HGB reserve as of December 31, 2020 would have caused the above stated capital ratio to increase from 15.0 % to 15.8 %.

[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

3.3 Results of operations

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

	2020	2019	Change
	EUR million	EUR million	EUR million
Net interest income	495.5	499.3	-3.8
Net leasing income	2,270.3	2,029.9	240.4
Net commission income	-111.3	-121.1	9.8
Net other operating income	97.7	103.5	-5.8
General administrative expenses	-286.5	-279.7	-6.8
Depreciation of leased assets	-2,004.9	-1,733.7	-271.2
Depreciation of property, plant, and equipment	-0.2	-0.3	0.1
Net income from writedowns / writeups and reversals of / additions to impairments of receivables	-256.2	45.1	-301.3
Addition to the fund for general banking risks	-162.5	-220.0	57.5
Net operating income	**41.9**	**323.0**	**-281.1**
Income taxes	-41.2	-60.6	19.4
Other taxes	-0.7	-1.0	0.3
Net income (before profit transfer)	**0.0**	**261.4**	**-261.4**

The results of operations reflect both an improvement in net leasing income and an increase in depreciation of leased assets. The depreciation recognized includes both scheduled depreciation and additional depreciation to account for the special coronavirus situation. The allowance for credit risks was likewise adjusted in this connection, which had a significant effect on annual net income.

Furthermore, the Company's equity base was strengthened by an addition reflected in the income statement to the fund for general banking risks. For this reason, 2020 concludes with a break-even result for the year. Without the addition to the general banking risk fund and the special coronavirus situation, net operating income would have been stable year-on-year.

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

	2020	2019	Change
	EUR million	EUR million	EUR million
Interest income from	707.6	681.6	26.0
Customer financing	459.7	461.8	-2.1
ABS transactions	146.4	108.9	37.5
Dealer and importer financing	84.4	92.6	-8.2
Hedging transactions	8.1	4.8	3.3
Securities	6.7	10.8	-4.1
Affiliated companies	1.7	3.8	-2.1
Other	0.6	-1.1	1.7
Interest expense from	-212.1	-182.3	-29.8
Liabilities to Bavarian Sky	-164.5	-127.0	-37.5
Liabilities to customers	-35.3	-40.1	4.8
Hedging liabilities	-15.4	-14.4	-1.0
Other	3.1	-0.8	3.9
Net interest income	**495.5**	**499.3**	**-3.8**

Interest income and interest expense from ABS transactions rose in tandem with each other. **Net interest income** remained stable year-on-year.

Net leasing income before depreciation increased year-on-year. Due to greater volume and additional allowances for the special coronavirus situation, depreciation expense increased sharply year-on-year and resulted in lower **net leasing income after depreciation**.

	2020	2019	Change
	EUR million	EUR million	EUR million
Leasing income	4,906.6	4,309.2	597.4
Leasing expenses	-2,636.3	-2,279.3	-357.0
Net leasing income	2,270.3	2,029.9	240.4
Depreciation of leased assets	-2,004.9	-1,733.7	-271.2
Net leasing income after depreciation	**265.4**	**296.2**	**-30.8**

Net commission income improved slightly to EUR -111.3 million (previous year: EUR -121.1 million).

Net other operating income declined slightly to EUR 97.7 million (previous year: EUR 103.5 million).

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

	2020	2019	Change
	EUR million	EUR million	EUR million
Personnel expenses	-119.3	-115.6	-3.7
Other administrative expenses	-167.2	-164.1	-3.1
General administrative expenses	**-286.5**	**-279.7**	**-6.8**

General administrative expenses rose somewhat (by EUR 6.8 million) to EUR 286.5 million. This is partly due to higher additions to pension provisions.

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

	2020	2019	Change
	EUR million	EUR million	EUR million
Net addition (prev. year: net reversal)	-213.8	75.8	-289.6
Loan loss provisions	-24.5	-10.1	-14.4
Writedowns of customer receivables	-20.5	-21.6	1.1
Income from receivables previously written off	4.4	5.7	-1.3
Other	-1.8	-4.7	2.9
Writedowns and impairments	**-256.2**	**45.1**	**-301.3**

In 2020, writedowns and impairments of receivables and certain securities resulted in net expense of EUR 256.2 million (previous year: net income EUR 45.1 million). The increased expense in 2020 was caused above all by additional allowances for credit risks in light of the special coronavirus situation, including an addition of EUR 22.2 million to risk allowances under § 340f HGB. Furthermore, in 2019 the allowance for general banking risks under § 340f HGB was reversed in an amount of EUR 110.0 million, which was transferred to the fund for general banking risks under § 340g HGB.

Direct writeoffs of receivables amounted to EUR 20.5 million (previous year: EUR 21.6 million). Income from receivables previously written off declined from EUR 5.7 million to EUR 4.4 million.

Income taxes and **other taxes** declined in the fiscal year elapsed as shown in the following table:

	2020	2019	Change
	EUR million	EUR million	EUR million
Spanish branch	-20.3	-21.3	1.0
Italian branch	-19.3	-36.8	17.5
Portuguese branch	-1.6	-2.3	0.7
Other	-0.0	-0.2	0.2
Income taxes	**-41.2**	**-60.6**	**19.4**
Other taxes	**-0.7**	**-1.0**	**0.3**

Annual net income after income taxes and other taxes amounted to EUR 0.0 million (previous year: EUR 261.4 million).

3.4 Performance indicators

The following table summarizes changes in the most significant financial and non-financial performance indicators in fiscal year 2020 compared with last year's forecast:

	2019 Actual	Forecast for 2020	2020 Actual
Fluctuation rate[8]	8.0 %	In line with prev. yr.	7,4 % (-0,6 % points) In line with prev. yr.
Return on risk adjusted capital (RORAC)[9]	20.3 %	In line with prev. yr.	2,5 % (-17,8 % points) Significant decline
New retail business lending volume (in EUR billions)[10]	9.8	Significant decline	9.3 (-5.1 %) Moderate decline
Administrative expense per contract in EUR[11]	234.7	In line with prev. yr.	244.0 (+4.0 %) Slight deterioration
Cost-Income Ratio[12]	39.1 %	Slight deterioration	42,3 % (+3,2 % points) Slight deterioration

Last year's forecast for fiscal year 2020 was prepared after the pandemic had already become apparent. The then prevailing uncertainty regarding further proliferation in the affected countries made accurate forecasting difficult.

The fluctuation rate (7.4 %) declined by 0.6 % percentage points in fiscal year 2020 and was thus on a par with last year as forecast.

The significant drop in return on risk adjusted capital (RORAC) resulted from the lower net operating income in fiscal year 2020 (EUR 42.0 million; previous year: EUR 323.0 million). The deterioration was attributable above all to the recognition of additional allowances for credit and residual value risks as a result of the special coronavirus situation. Furthermore, to strengthen the capital base an addition of EUR 162.5 million was made

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)

to the fund for general banking risks and an addition of EUR 22.2 million to the allowance for general banking risks.

New retail business volume declined somewhat from EUR 9.8 billion last year to EUR 9.3 billion. This was attributable in particular to the decline in new contracts in the new car sector. Nevertheless, thanks to higher penetration rates and larger average financing amounts due to a higher leasing percentage, only moderate decline was experienced instead of the sharp drop forecasted in 2019.

Administrative expense per contract rose slightly (by 4.0 %) year-on-year due to higher administrative costs; the small increase in the number of existing contracts was unable to make up for the higher costs.

The slight decline in net operating income and higher overall administrative costs led to a cost-income ratio of 42.3 %. This indicator thus rose slightly year-on-year as forecast.

4. Opportunities and risk report

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 electric drive systems as targeted in particular by the BMW Group's sustainability strategy, and new digital customer interfaces are opening up strategic opportunities for BMW Bank GmbH. By creating financial service products for innovative mobility concepts and associated services, BMW Bank GmbH can, for instance, branch out into new growth segments in the future. 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 risk posed by business cycle downturns, such as that triggered by the 2020 coronavirus crisis, BMW Bank GmbH also faces a general risk of reduced demand for BMW Group vehicles arising from, 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. By studying and analyzing sustainability factors, BMW Bank GmbH is taking account of the ever growing challenges stemming from climate change and its consequences for the financial system. Such study and analysis extends beyond the physical and transitory climate and environmental risks and includes issues of social responsibility and corporate governance as well. BMW Bank GmbH sees the handling of sustainability risks as a vital matter. As a member of the BMW Group value chain, it communicates closely with the other members so as to adjust its processes and methods as necessary in line with the overarching, comprehensive, and sustainable Group corporate strategy.

4.1 Organization and material elements of risk management

As part of the due and proper organization of the business as a whole, the management of BMW Bank GmbH is responsible for all material elements of the risk management system. 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 and is organizationally part of the back office.

The central body at BMW Bank GmbH is the Risk Committee. The Risk Committee deals with all matters relating to risk management and risk quantification methods, formulates requirements, and decides on necessary measures. The Risk Committee meets once a month as a rule, but an ad hoc meeting can be convened under the defined escalation procedures. In 2020, the Risk Committee met once each calendar month. In addition to the Risk Committee, all risk-related topics are dealt with by the Credit Committee as part of managing specific risks.

The comprehensive risk management system of BMW Bank GmbH is charged with the tasks of identifying, assessing, and managing internal and external risks and risk ramifications that jeopardize the attainment of corporate goals. Risk management also includes risk monitoring and the associated reporting. Other important elements of the risk management system include the implementation, further development, and monitoring of the internal control system (IKS) together with the organizational safeguards built into the organizational and operational structure of BMW Bank GmbH (such as the segregation of functions and the clear delineation of responsibilities).

The foreign branches of BMW Bank GmbH in Italy, Spain, and Portugal 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 Bank's European markets in their local implementation of the defined standards.

With the requirements of customers and the banking oversight authorities in mind, the Risk Management Department ensures the adequacy and effectiveness of the Bank's risk management system through continuous monitoring and refinement of the individual processes. The core elements and processes of the risk management system are regularly reported and presented to the Supervisory Board of BMW Bank GmbH, which is responsible for overseeing the effectiveness of the risk management system. The adequacy and effectiveness of the system is moreover monitored in reviews conducted by the Internal Audit Department. The three lines of defense (business lines, risk management and compliance, and Internal Audit) ensure a clear segregation of functions and thus oversight of the existing processes and systems.

BMW Bank GmbH employs effective management and control systems to identify, assess, and appropriately address risks at an early stage. These systems are integrated into a unified risk management system as part of ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process). The following diagram depicts the basic organizational framework, the risk management processes, and the chief pillars of strategic risk management as a fundamental part of the overall risk strategy.

Risk management system 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 in light of the business strategy, and determines risk appetite in accordance with the risk appetite framework. 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 as well as ad hoc as necessary 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 and rest on four pillars: "Tone from the Top," "Responsibility," "Effective Communication and Transparency," and "Incentive Structures." These core elements operate through effective corporate management and oversight, clear definition and specification of risk appetite, and appropriate compensation and incentive systems, among other things. To entrench its risk culture ever more deeply, the Bank continuously carries out appropriate training and implementation measures throughout the entire organization in addition to relying on the example set by its executives.

BMW Bank GmbH periodically conducts risk inventories to identify risks and risk concentrations the Bank may potentially be exposed to and assess the relevance and materiality of such risks. The risk inventory process also involves identifying the material drivers of risks and earnings and analyzing the potential implications of sustainability risks for the relevant types of risk that BMW Bank GmbH faces. Please see sec. 4.2 for more details.

BMW Bank GmbH relies on both the economic perspective and the normative perspective as approaches with equal risk management relevance when analyzing, managing, and monitoring material risks for purposes of **determining risk-bearing capacity** in accordance with the revised ICAAP Guideline of the Federal Financial Supervisory Authority (BaFin) ("Supervisory Assessment of Bank-internal Capital Adequacy Concepts and their Integration into the Overall Performance and Risk Management Processes"). Please see sec. 4.4 for more details.

To supplement its analysis of risk-bearing capacity, BMW Bank GmbH also carries out 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 the Bank (including its risk strategy, capital and liquidity, results of operations, and risk situation) as well as the relevant risk drivers and the possible courses of action consistent with the recovery planning and the liquidity emergency planning. Furthermore, action is taken where necessary. In addition to its periodic stress tests, BMW Bank GmbH also has a process in place to determine the need for and implement unscheduled stress tests.

As part of its multi-year **capital planning**, BMW Bank GmbH ensures that it is adequately capitalized from both the economic and the normative perspective over a three-year planning horizon. The goal is to identify any need for additional capital in timely fashion and initiate any necessary measures at an early stage. In addition to a baseline scenario in line with the business planning and reflecting anticipated developments, several adverse scenarios are also considered to take account of alternative developments. The capital planning scenarios and assumptions are comprehensively validated once a year. Results are updated and reported to management on a quarterly basis or if necessary ad hoc. Any need for an injection of new capital is decided based on the most recent capital planning. Potential capital measures are set forth in the Bank's capital strategy, which defines the principles by which BMW Bank GmbH manages and monitors the adequacy of its capital.

Multi-year **liquidity planning** ensures that BMW Bank GmbH has adequate liquidity both for regulatory purposes and from an internal management perspective. As in the case of capital planning, the process involves both a baseline scenario and several adverse scenarios. The baseline scenario rests on assumptions reflecting planned changes in the business activities and/or strategic goals of BMW Bank GmbH as well as the developments anticipated in the economic and regulatory environment. The adverse scenarios take account of potential developments that deviate from these expectations. Liquidity planning for the baseline scenario is presented to the Risk Committee and approved by management on a quarterly basis; the planning for the adverse scenarios is presented to the committee and approved by management annually. Regular reports (monthly and quarterly respectively) are in addition made to the Asset Liability Committee (ALCO). Potential liquidity measures are set forth in the business strategy as well as in the ILAAP Framework guidelines (e.g. liquidity emergency plan); these guidelines define the principles by which BMW Bank GmbH manages and monitors the adequacy of its liquidity.

In the context of the **recovery planning** required by regulatory law, BMW Bank GmbH considers potential crisis scenarios and their implications for the Bank. Please see sec. 4.5 for more details on the recovery planning. The preparation of **resolution planning** for BMW Bank GmbH, which regulatory law likewise requires, is the responsibility of the Federal Financial Supervisory Authority (BaFin) as the government agency with resolution authority in Germany. The resolution plan is updated annually in an iterative process to which BMW Bank GmbH contributes by furnishing pertinent data under the resolution planning reporting system.

The stress tests, the adverse scenarios for capital and liquidity planning purposes, and the recovery planning are coordinated with each other and integrated into the ICAAP and ILAAP processes.

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 (including risk concentrations) facing the Bank and assess their significance for it. This is done by quantifying the risks in question or, for non-quantifiable risks, by expert appraisal. Based on this, a critical assessment and determination are made whether the various types of risk are relevant and material for BMW Bank GmbH and must accordingly be integrated both into the further risk management processes for assessing, managing, monitoring, and reporting risks and into the strategic risk management system. Particularly for purposes of integration into the analysis of risk-bearing capacity, separate classifications are made for purposes of the economic and normative perspectives respectively. As part of its risk inventory, BMW Bank GmbH also identifies the material drivers of risks and earnings, which are then used as the basis for strategic risk management, e.g. for stress testing. The results of the annual risk inventory are reviewed and approved by management acting through the Risk Committee.

For the year 2020, BMW Bank GmbH integrated the types of risk that were classified as material from the economic perspective or the normative perspective into its analysis of risk-bearing capacity as follows:

Types of material risks[13]	Integrated in risk-bearing capacity (economic and normative)
Counterparty default risks	
Credit risks	Yes
Counterparty and issuer risk*	Yes
Collateralization risk	Yes
Country or transfer risk	Yes
Counterparty default risk concentration	Yes
Market risks	
Residual value risk	Yes
Residual value risk concentration	Yes
Interest rate risk	Yes
Credit valuation adjustment risk*	Yes
Liquidity risks	
Insolvency risk	No
Refinancing cost risk	Yes
Market liquidity risk	Yes
Liquidity risk concentration	No
Operational risks	
Operational Risk in the narrow sense	Yes
Legal, compliance, and behavioral risk	Yes
Modeling risk	Yes
Operational concentration risk	Yes
Other types of risk	
Placement risk	Yes
Pension risk	Yes
Customer option exercise risk	Yes
Business and earnings risk	Yes
Strategic risk	No
Reputational risk	No
Other (intra-) concentration risk	No
Inter-concentration risk	Yes

Consideration of the types of material risks of BMW Bank GmbH for purposes of risk-bearing capacity

Other types of risk that were classified as relevant, but not as material (e.g. maintenance risk) are factored into risk-bearing capacity under the economic approach through risk appetite.

In accordance with the final guidance on sustainability risks published by BaFin in December 2019, BMW Bank GmbH does not define these risks as a separate type of risk. Instead, the potential impact of sustainability risks on the types of material risks faced by BMW Bank GmbH is analyzed as part of the risk inventory process.

[13] Types of risk marked with an asterisk " * " are classified as material from the economic perspective, but not from the normative perspective.

In 2020, BMW Bank GmbH also introduced a sustainability framework analyzing and describing the various aspects of sustainability risks (environmental, social, and corporate governance) and their relevance for BMW Bank GmbH. The sustainability framework also describes how BMW Bank GmbH manages sustainability risks by integrating them into the relevant risk management processes and how this interacts with the sustainability goals of the BMW Group. For more detail on sustainability risks, please see the explanations of the specific types of risk in sec. 4.3.

4.3 Risk assessment, management, and monitoring

This section defines the material types of risks of BMW Bank GmbH and describes both the manner in which these risks are assessed, managed, and monitored as part of the risk management processes as well as the role these processes play in strategic risk management.

In 2020, the deterioration in the economic environment that was triggered by the coronavirus had a slight negative impact on the risk situation of BMW Bank GmbH. There are comments on this matter in the subsections that follow dealing with the various types of risks. BMW Bank GmbH continuously monitors the development of all material types of risk in response to the coronavirus crisis and regularly reviews the potential implications of these risks 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, importer, issuer, counterparty), or due to changes in the valuation of collateral. BMW Bank GmbH divides material counterparty default risks into the sub-categories credit risk, counterparty risk, issuer risk, collateralization risk, country or transfer risk, and counterparty default risk concentration.

The stress tests for specific types of counterparty default risks involve simulating the consequences of portfolio concentrations, increased volumes, deteriorating credit ratings, rising default rates, impaired collateral, deterioration in macroeconomic factors, and the loss of diversification effects. Furthermore, the material drivers of the Bank's counterparty default risks are analyzed with respect to different stress scenarios in the cross-risk stress tests.

4.3.1.1 Credit risks

The credit risk comprises both default risk and migration risk. BMW Bank GmbH is exposed to default risk 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 risk represents by far the largest share of the counterparty default risks confronting BMW Bank GmbH. At BMW Bank GmbH, migration risk is the risk that the creditworthiness of a customer, dealer, or importer will deteriorate and cause the carrying amount 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.

In 2020, the development of credit risk was characterized by largely stable delinquency rates in the retail business, whereas the Weak Dealer Ratios rose slightly in response to the coronavirus crisis. Given the continuing high degree of uncertainty as to what impact the crisis should be expected to have on the real economy, corresponding allowances for credit risks were recognized. In 2021, the risk remains that additional credit risk allowances may prove necessary. However, should the consequences of the coronavirus crisis turn out to be less severe than anticipated, this would raise the possibility of reversing the existing allowances for credit risks.

The management of credit risk is integrated into the risk management process, the risk reporting, and the calculation of risk-bearing capacity. For instance, in the acquisition phase, default risk is 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 periodically validated; they form the basis for exact and consistent measurement and management of credit risk and for rating 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 as a function of credit ratings. 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 risk is managed first of all by calculating the present value of the standard risk costs at the time the lending decision is made, so that 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 exposures with regard to economic circumstances, collateral, compliance with limits, contractual obligations, and internally defined conditions. These processes ensure that exposures receive adequate attention in accordance with their degree of risk as normal, work-intensive, or problem loans.

With respect to sustainability risks, the possibility exists that in particular physical and transitory climate and environmental risks may negatively impact the parties with whom the Bank contracts and thus affect the Bank's credit risk, e.g. by negatively impacting the Bank's business model or by causing unemployment to rise in certain business sectors or regions. The high degree of diversification in customer financing and in the leasing business is a factor that limits the potential impact of sustainability risks on BMW Bank GmbH. Plans exist to integrate external sustainability scoring or ratings into the assessment of sustainability risks for purposes of individual customer financing management. For purposes of individual management of dealer and importer financing, a qualitative assessment is to be used in the future as a first step in considering sustainability risks.

When analyzing risk-bearing capacity from the economic perspective, credit risk is measured and managed by determining unexpected loss (credit value at risk, CVaR) at the portfolio level. Unexpected loss is calculated using an internal credit portfolio model. The model simulates a loss distribution based on the credit metrics model and takes account of (counterparty default) concentration risk in addition to counterparty default risk and migration risk. Changes in CVaR 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, 2019 and 2020. As of December 31, 2020, the default probabilities (probabilities of default, PD) underlying the credit portfolio model averaged 2.8 % for the portfolio as a whole and were thus 0.3 percentage points higher than last year. The higher PDs for individual ratings are one reason for this increase; these ratings are in turn influenced by macroeconomic factors (e.g. unemployment) which have in some cases deteriorated due to the coronavirus crisis. Secondly, compared with the previous year a somewhat larger number of contracts and dealerships are in default or at least in a lower rating category. The loss rates (loss given default, LGD) that constitute an additional parameter under this model averaged 43.7 % for the portfolio as a whole as of December 31, 2020, which was unchanged from last year.

For risk-bearing capacity from the normative perspective, the credit risk is considered in calculating the total capital ratio via the credit RWA (impacting total amount at risk), the IRBA impairment amount (impacting total capital), and the loan loss impairments (impacting the income statement). Furthermore, CVaR is also factored into the quantitative criterion for determining the institution-specific Pillar 2 capital requirements (P2R) from the supervisory review and evaluation process (SREP process).

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 uses interest rate derivatives to help manage the interest rate risk of BMW Bank GmbH. These transactions result in counterparty and issuer risk. This risk is incorporated into the risk management processes, the risk reporting, and the calculation of risk-bearing capacity.

For purposes of risk-bearing capacity from the economic perspective, counterparty and issuer risk is covered by calculating the unexpected loss (CVaR) in the internal credit risk model. From the normative perspective, such risk is considered in calculating the total capital ratio via credit RWA (impacting total amount at risk) and the influence of CVaR on the quantitative criterion for the Pillar 2 capital requirements (impacting capital requirements).

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 may decline in 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 considered when calculating the credit risk parameters (LGD), which are then used in analyzing risk-bearing capacity (CVaR from the economic perspective / credit RWA for the IRBA portfolios from the normative perspective). From the normative perspective, such risk also affects the total capital ratio via the influence of CVaR on the quantitative criterion for the Pillar 2 capital requirements (impacting capital requirements).

4.3.1.4 Country and transfer risk

Country risk refers to counterparty defaults preceded and caused by a sovereign default by the country in which the counterparty is located. Transfer risk includes transfer risk in the narrow sense and convertability risk. This refers to the risk that a government may restrict the flow of capital, thereby restricting the export of funds across the national borders (transfer risk in the narrow sense) or the conversion of local currency into foreign currency (convertability risk) and preventing the repayment of debts.

Most of the Bank's business is conducted in the euro area. Country and transfer risks nevertheless exist with respect to importer financing outside of the Eurozone.

Country and transfer risk is integrated into the risk management process by factoring a country-specific risk premium into the probability of default (PD); this premium then impacts the assigned rating. Country and transfer risk is accordingly reflected in risk-bearing capacity from the economic perspective by considering ratings in the credit portfolio model (CVaR). Under the normative approach, such risk affects the total capital ratio via the influence of CVaR on the quantitative criterion for the Pillar 2 capital requirements (impacting capital requirements).

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

4.3.1.5 Counterparty default risk concentration

In general, BMW Bank GmbH defines concentration risk as the danger to which the 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.

The concentration of receivables on certain contracting parties, business sectors, products, countries, or geographical regions and the concentration of collateral on vehicles exposes BMW Bank GmbH to counterparty default risk concentration. The counterparty default risk concentration inherent in its business model is accepted by BMW Bank GmbH in order to support BMW Group unit sales and the BMW dealer network and generate income by focusing on and specializing in certain transactions.

In managing individual business transactions, counterparty default risk concentration in dealer financing and Treasury is managed by setting and monitoring limits for the various dealers, counterparties, and issuers.

Counterparty default risk concentration is moreover incorporated into the risk management process, risk reporting, and risk-bearing capacity under the economic and normative approaches by considering concentrations in the internal credit risk model, for instance by considering groups of borrowers or using the collateral when calculating LGDs. Counterparty default risk concentration is also analyzed in the course of stress tests.

4.3.2 Market risks

Market risks reflect the potential loss from unfavorable changes in market prices or price factors. BMW Bank GmbH distinguishes between the following major sub-categories: residual value risk, residual value risk concentration, interest rate risk, and credit valuation adjustment risk.

4.3.2.1 Residual value risk

Lease agreements are a strategically important financing instrument for new and used 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 when the leased vehicle 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 vehicle is sold will exceed the forecast residual value.

The residual values of lease returns that were sold in the course of the year 2020 were relatively unaffected by the repercussions of the coronavirus crisis and remained largely stable compared to previous years. However, the volatile external factors pose residual value risks for the future that are regularly assessed and closely monitored. These risks currently include the long-term implications of the coronavirus crisis for used car prices as well as the increasing electrification of the BMW vehicle fleet. BMW Bank GmbH appropriately increased its allowances for residual value risk in 2020, particularly in light of the potential consequences of the coronavirus crisis. In 2021, the risk remains that additional residual value risk allowances may prove necessary. However, should the consequences of the coronavirus crisis turn out to be less severe than anticipated, this would raise the possibility of reversing the existing allowances for residual value risk.

Residual value forecasts are generally 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 above process for determining residual value is one means of managing residual value risk. In this connection, 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) also provide a basis for appropriate management of the residual value risk exposure of BMW Bank GmbH. 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, PLSAs). 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.

Particular attention is devoted to dealing with sustainability risks relating to future means of mobility and their impact on residual value risk. The supply-side induced shift to vehicles with electric propulsion systems is expected to result in corresponding price adjustments on the used car market, and these adjustments may in turn impact residual value risk. BMW Bank GmbH has developed and implemented special methods and processes for appropriately assessing and managing the impact of sustainability factors on residual value risk.

For instance, markups or discounts are applied to base residual value depending on the analysis of various scenarios.

When analyzing risk-bearing capacity from the economic perspective, residual value risk is measured and managed by calculating unexpected loss (residual value at risk, RVaR). RVaR 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. Changes in RVaR 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, 2019 and 2020.

For risk-bearing capacity from the normative perspective, residual value risk is considered in calculating the total capital ratio via the credit RWA (impacting total amount at risk) and the risk allowances (impacting the income statement). Furthermore, RVaR is also factored into the quantitative criterion for determining P2R (impacting capital requirements).

The stress tests for specific types of residual value risk include simulating the consequences of series concentrations, increased volumes, deteriorations in AMP, and the loss of diversification effects. Furthermore, the material drivers of the Bank's residual value risk are analyzed with respect to different stress scenarios in the cross-risk stress tests.

4.3.2.2 Residual value risk concentration

Residual value risk concentration refers to the potential loss that can result when leases are concentrated on certain types of leased assets.

For the residual value risk concentration of BMW Bank GmbH, a decisive role is played above all by the focus on a business sector (automotive industry) and the dependence on the BMW Group (brands and vehicle model lines). BMW Bank GmbH accepts the residual value risk concentration that is associated with its business model in order to derive competitive advantage in the financing industry from the special knowledge that its close connection to BMW AG confers regarding precise residual value forecasting and efficient residual value risk measurement and management.

Account is taken of residual value risk concentration in the residual value determination process by allowing for volume effects. The anticipated number of returned vehicles of the same model or in the same model line is factored into both the determination of base residual value and the AMP forecast.

The residual value risk model (RVaR) takes account of risk concentrations with respect to brands and vehicle model lines; in other words, a diversified portfolio has a positive impact on RVaR. This integrates residual value risk concentration into risk-bearing capacity under both the economic and normative approaches. For risk reporting purposes, the key residual value risk indicators (such as the number of returned vehicles and residual value loss per vehicle) are tracked both at the level of the Bank's various markets and for each vehicle model line. This calls potential concentrations of residual value risk to the attention of management. Furthermore, residual value risk concentration is also stress-tested by considering appropriate stress scenarios.

4.3.2.3 Interest rate risk

Interest rate risk, the material sub-categories of which are repricing risk, yield curve risk, and tenor basis risk, refers the loss to which BMW Bank GmbH is potentially exposed by interest rate changes on the money and capital markets. Conversely, it may be possible to take advantage of favorable market developments to generate a maturity transformation gain.

In 2020, the coronavirus crisis resulted in higher volatility on the interest market. BMW Bank GmbH responded with appropriate measures to reduce the resulting interest rate risk. It was as the same time possible to take advantage of the low-interest environment to generate net interest income under both the present-value and period-oriented methods.

Interest rate risk 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), only the banking book is subject to interest rate risk.

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. The resulting interest rate risk is integrated into the risk management process, risk reporting, and risk-bearing capacity.

From the economic perspective, repricing risk and yield curve risk are accounted for using 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 based on historical interest rate scenarios; it is accordingly impacted both by open interest rate positions and by the interest rate scenarios relied on. In addition, tenor basis risk is also considered using tenor basis value at risk (TVaR). TVaR is calculated as the present value loss resulting from changes in the tenor basis spreads determined using a volatility model. Changes in IRVaR and TVaR 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, 2019 and 2020.

For risk-bearing capacity under the normative approach, interest rate risk is considered using the Basel interest rate shock. Furthermore, the present value loss from the Basel interest rate shock is also factored into the quantitative criterion for determining P2R (impacting capital requirements / the total capital ratio).

The stress tests for specific types of interest rate risk cover both the present value approach and the multi-period approach. For this purpose, the open interest rate positions are subjected to various interest rate changes (such as an inverted interest yield curve) and cashflow changes are simulated. The impact of rising and falling tenor basis spreads is also observed. In addition to its own in-house stress tests for specific types of risks, the Bank also calculates the stress scenarios specified in BaFin Circular 06/2019 for the Basel interest rate shock and the early warning indicators. Furthermore, the material drivers of the Bank's interest rate risks are analyzed with respect to different stress scenarios in the cross-risk stress tests.

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 Bank's risk strategy. The hedging relationship must therefore be regarded as highly effective.

4.3.2.4 Credit valuation adjustment risk

In connection with its refinancing operations, BMW Bank GmbH issues asset-backed securities (ABS) through the special purpose vehicle Bavarian Sky S.A., Luxembourg. In this connection, BMW Bank GmbH enters into OTC swaps with outside banks. 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 value of the derivative, the higher such potential loss.

The risk is integrated into the risk management processes and the risk reporting; it is also integrated into the economic approach to risk-bearing capacity via the credit portfolio model (CVaR) and into the normative approach to risk-bearing capacity via the computation and planning of regulatory equity requirements (credit valuation adjustment, CVA).

4.3.3 Liquidity risks

BMW Bank GmbH divides its material liquidity risks into the sub-categories insolvency risk, refinancing cost risk, and market liquidity risk. In particular, the specific characteristics and effects of the type of risk and the various time horizons are taken into account. BMW Bank GmbH is furthermore exposed to liquidity risk concentration due to its concentration on certain sources of refinancing.

<table>
<tr><th colspan="5">Types of Liquidity Risks and Risk Management Approaches</th></tr>
<tr><th colspan="3">Insolvency risk</th><th>Refinancing cost risk</th><th>Market liquidity risk</th></tr>
<tr><td colspan="3">Risk of late and/or incomplete discharge of payment obligations (operative liquidity risk)</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>Intraday</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>

Liquidity Risk Breakdown of BMW Bank GmbH

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 insolvency risk and supplemented by ongoing liquidity planning including adverse scenarios.

In this connection, LaR, i.e. the liquidity required under adverse conditions, is calculated daily on the basis of internal assumptions and compared with the liquidity reserve. In 2020, the LaR was at all times covered by the available liquidity reserve. As of December 31, 2020, LaR amounted to EUR 1,008.2 million (December 31, 2019: EUR 405.7 million) compared to a liquidity reserve of EUR 1,610.0 million (December 31, 2019: EUR 1,041.9 million). This represents 62.6 % utilization of the liquidity reserve by LaR (December 31, 2019: 38.9 %). For one thing, LaR 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 115.9 million as of December 31, 2020 (after deducting the haircut: EUR 115.0 million). The haircut applied is the ECB haircut, however increased by a deduction for the loss in fair value in the event interest rates rise. The deduction is calculated based on the average modified duration of the securities and the historically observable interest rate increase at the grid point (analogous to the LaR quantile).

LCR is calculated based on Regulation (EU) 2015/61 as amended by Regulation (EU) 2018/1620 (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 LCR is performed on a daily basis. A minimum target level of 110 % has been defined to cover fluctuations. Despite the coronavirus crisis, the liquidity of BMW Bank GmbH was at no time jeopardized in 2020. To ensure this, measures were taken to protect the Bank's liquidity (such as entering into ABS open market transactions and increasing deposit volume). LCR at all times exceeded the required minimum quota of 100.0 % under regulatory law. The LCR was 138.4 % as of December 31, 2020 (December 31, 2019: 125.0 %).

Refinancing cost risk is considered in the risk management processes, included in the risk reporting, and incorporated into risk-bearing capacity from the economic perspective through the liquidity value at risk (LVaR). Under the normative approach, such risk also affects the total capital ratio via the influence of LVaR on the quantitative criterion for the Pillar 2 capital requirements (impacting capital requirements). Changes in LVaR over the course of the year 2020 are shown in sec. 4.4, where the utilization rate and the limit are also compared to each other as of December 31, 2019 and 2020.

To ensure an adequate diversification of liabilities and thereby minimize liquidity risk concentration, BMW Bank GmbH seeks to achieve a predefined refinancing mix between the following funding sources: deposits, ABS transactions, intercompany loans, and other liabilities. The risk-bearing capacity concept takes complete account of ABS transactions and the assets they securitize. Assuming sufficient availability of free receivables, BMW Bank GmbH can, in the event of a liquidity crisis, acquire the ABS paper directly from the special purpose vehicle in a new ABS transaction and then deposit this paper as security with the European Central Bank in order to receive liquid funds under a tender program (ABS open market transaction).

Sustainability risks can negatively impact the liquidity situation of BMW Bank GmbH. They may, for instance, precipitate an unexpected outflow of customer deposits or result either in the loss of refinancing sources or in higher refinancing costs in the event the image of BMW AG is impaired. The dangers posed by physical and transitory risks are addressed by risk-reducing measures such as holding appropriate reserve liquidity or managing the refinancing cost risk under the economic approach to risk-bearing capacity.

The stress tests for specific types of liquidity risks include calculating additional liquidity requirements and determining survival periods for each of the following: a partial loss of intercompany funding; an increase in the cash reserve required for ABS transactions due to a rating downgrade of BMW AG; increased deposit withdrawals; an incomplete ABS placement; an increase in asset-side volume; and additional loan defaults. The scenarios considered also cover liquidity risk concentration and sustainability aspects. The impact of increased intercompany spread on the refinancing cost risk (LVaR) is also considered. Furthermore, the material drivers of the Bank's liquidity risks are analyzed with respect to different stress scenarios in the cross-risk stress tests.

BMW Bank GmbH is also currently adding the new regulatory requirements from the net stable funding ratio (NSFR) to its liquidity management system; these requirements take effect in June 2021 as part of CRR II.

4.3.4 Operational risks

BMW Bank GmbH divides operational risks (OpRisk) into the sub-categories operational risk in the narrow sense; legal, compliance, and behavioral risk; modeling risk; and operational risk concentration. The term "operational risks" does not include business risk and strategic risk.

Operational Risk in the narrow sense is defined as the risk of losses caused by external events or by the inadequacy or outright failure of internal processes, individuals, and systems. Legal, compliance, and behavioral risk results from potential non-compliance with applicable regulations or requirements or from regulatory changes. Modeling risk is defined as the risk of potential loss from a false presentation of financial results or reputational damage due to models that were improperly designed, improperly implemented, improperly used, or excessively relied on. Operational risk concentration relates primarily to the concentration on certain OpRisk categories, business processes, IT processes, or service providers.

As part of its management of operational risks, BMW Bank GmbH has appointed operational risk officers for each department / 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. All operational risk scenarios with an anticipated loss exceeding EUR 100 thousand are presented to the Risk Committee for confirmation, as are legal, compliance, and behavioral risks. Risk reduction measures are discussed and adopted as necessary.

The determination of risk-bearing capacity from the normative perspective takes account of operational risk by calculating and planning regulatory equity requirements (own funds) with regard to the total capital ratio (impacting the total amount at risk). The standard approach per CRR is followed here. 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. For purposes of risk-bearing capacity from the economic perspective, operational risk is considered by scaling the equity requirements (own funds) per standard approach to a confidence level of 99.98 % (operational value at risk, OpVaR). Under the normative approach, OpVaR in turn influences the quantitative criterion for P2R (impacting capital requirements). Changes in OpVaR 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, 2019 and 2020. Furthermore, the estimated worst case losses in the identified risk scenarios are considered when calculating and validating an additional risk safety margin (buffer) for purposes of risk appetite under the economic approach.

The stress tests for specific types of operational risk involve simulating the effects of higher probabilities of occurrence for different risk scenarios. Furthermore, the material drivers of the Bank's operational risks are analyzed with respect to different stress scenarios in the cross-risk stress tests.

A model inventory process is carried out each year to prepare a model inventory list. BMW Bank GmbH considers modeling risk 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 risk. Operational risk management includes procedures by which modeling risk from the models employed by BMW Bank GmbH is annually reviewed and evaluated and, if applicable, newly identified. This ensures that the operational risk management of BMW Bank GmbH includes managing modeling risk. Furthermore, the periodic validation process ensures that the models employed are up to date. Moreover, in analyzing risk-bearing capacity under both the economic and the normative approaches, modeling risk is implicitly considered through conservative model specifications and calibrations. In addition, at the level of risk appetite a markup for modeling risk that results from the capital planning is factored into the total capital ratio.

The operational risk concentration is managed through specific processes and/or structures, for instance through systematic IT risk management. Furthermore, capital adequate to cover the operational risk concentration is ensured by taking account of the estimated worst case losses from the risk scenarios when analyzing risk-bearing capacity from the economic perspective; these losses are aggregated without regard to diversification effects. The operational risk concentration is also analyzed both from the normative perspective and for purposes of the stress tests for specific types of risks.

Sustainability risks relating to the climate, the environment, social responsibility, and corporate governance are covered by the existing OpRisk management processes. Physical climate and environmental risks are in addition managed by the business continuity management (BCM) process.

4.3.5 Other types of risk

BMW Bank GmbH manages other types of risk primarily in the process of managing the types of risk that have been described above.

4.3.5.1 Placement risk

When emitting securities, placement risk is the risk that it will prove impossible to place all newly issued securities on the markets or that the placement will involve excessive costs.

For ABS transactions, the placement risk leads to a refinancing cost risk, i.e. the risk of more costly refinancing spreads. Placement risk is considered in the risk management processes, included in the risk reporting, and incorporated into risk-bearing capacity from the economic perspective through liquidity value at risk (LVaR). Under the normative approach, such risk also affects the total capital ratio, among other things via the influence of LVaR on the quantitative criterion for the Pillar 2 capital requirements (impacting capital requirements).

In addition to this standard risk management, placement risk and its impact on the liquidity of BMW Bank GmbH are also considered in the stress tests for specific types of risks by considering the consequences of an incomplete ABS placement as well as those of increases in intercompany spreads.

4.3.5.2 Pension risk

BMW Bank GmbH records provisions reflecting the pension rights of its employees. The resulting pension risk is defined as the risk of possibly having to increase the pension provisions either to reflect higher pension obligations due to changes in the rates of interest or inflation, changes in salary trends, or changes in the statistical life expectancy of the persons with pension entitlement, or because of fluctuations in the value of the assets held in the employee pension fund.

Under the pension risk model, pension risk is integrated into the risk management processes, the risk reporting, and the analysis of the risk-bearing capacity. 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 pension risk under the economic approach to risk-bearing capacity. This is calculated as the difference between the present values of pension assets and pension liabilities, whereby a Monte Carlo simulation is used to determine present value. For this purpose, a capital market model is used that models both the relevant asset classes and pension 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, 2019 and 2020. Under the normative approach to risk-bearing capacity, such risk also affects the total capital ratio, among other things via the influence of PVaR on the quantitative criterion for the Pillar 2 capital requirements (impacting capital requirements). The stress tests for specific types of risks analyze, with respect to pension risk, the effects of declining earnings on pension assets, the effects of falling discount curves on pension liabilities, and the effects of a rise in inflation. Moreover, the material drivers of the Bank's pension risk are analyzed with respect to different stress scenarios in the cross-risk stress tests.

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, customer option exercise risk is integrated into IRVaR, LVaR, and LaR as well as into matched funding; it is thus factored into the risk management and reporting processes and into the analysis of risk-bearing capacity under the economic and normative approaches. The risks arising from the right of return under Select contracts are considered when calculating RVaR.

4.3.5.4 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, deviations from the planning are regularly monitored as part of the current reporting and in the planning process. For purposes of risk-bearing capacity, losses in the fiscal year in progress diminish the risk coverage potential from the economic perspective and total capital from the normative perspective. Under the normative approach, business and earnings risk is also considered by taking account of the adverse scenarios and the deviations from the business planning that these assume. Furthermore, at the level of risk appetite a markup for business risk that results from the business planning is factored into the total capital ratio. The material drivers of risks and earnings with respect to the business and earnings risk of BMW Bank GmbH are analyzed and assessed in the context of both the cross-risk stress tests and the stress tests for specific types of risks.

4.3.5.5 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 a 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 business planning. In addition, the introduction of new products or projects involves estimating their long-term consequences for BMW Bank GmbH. By ensuring capital adequacy, the risk safety margin (buffer) that is defined at the level of risk appetite for risk-bearing capacity under the economic approach provides sufficient latitude for taking corrective action should indications of strategic negative developments emerge in the course of business planning. The comprehensive stress test process also includes analyzing potential vulnerabilities in the Bank's strategic orientation and taking appropriate action to eliminate these if necessary.

4.3.5.6 Reputational risk

BMW Bank GmbH defines reputational risk as the risk of loss or lost profits resulting from harm to reputation or a loss of reputation affecting BMW Bank GmbH or any of its branches in the eyes of owners, customers, employees, business partners, the public, or regulatory agencies.

BMW Bank GmbH may be exposed to reputational risk either directly or as a consequence of operational risks (such as legal or regulatory violations) or other risks (e.g. business risk, credit risk). Conversely, harm to reputation can also have second-round effects that lead to losses from other types of risk (such as liquidity risk).

BMW Bank GmbH identifies potential threats to reputation and manages reputational risk using the available operational risk management tools. This process is supported by defining and monitoring appropriate early warning signals, based for instance on analysis of the media or of customer satisfaction. Under the stress testing plan, reputational risk is considered both in the stress tests for specific types of operational risks and in a separate analysis that includes potential second-round effects.

Active management of reputational risk involves analyzing the potential implications of the Bank's business strategy on its reputation. The strategic policies of BMW Bank GmbH, which involve among other things continuous improvement in processes and IT capabilities, and the Bank's unqualified commitment to regulatory compliance are factors that help safeguard its high reputational standing now and in the future.

In its role as the captive subsidiary of a motor vehicle manufacturer, BMW Bank GmbH realizes that it faces a potential reputational risk from climate change and sustainability issues in particular. The BMW Group has set ambitious sustainability goals for itself. BMW Bank GmbH helps achieve these goals by financing climate-friendly and sustainable BMW vehicles.

4.3.5.7 Other (intra-) concentration risks

In addition to the above-discussed counterparty default, residual value, and operational risk concentrations, other (intra-) concentration risk refers in particular to earnings risk concentrations that arise because of the dependency on the vehicle unit sales of the BMW Group. BMW Bank GmbH consciously accepts the earnings risk concentrations that are inherent in its business model in order to use its specialized knowledge to obtain and expand competitive advantages. The existing earnings risk concentrations are analyzed in the course of the stress tests by determining what effect a (hypothetically assumed) insolvency of BMW AG would have on the risk situation and results of operations of BMW Bank GmbH.

4.3.5.8 Inter-concentration risk

Inter-concentration risk refers to the concentration risk that results from the linkages of or interactions between different types of risk (e.g. counterparty default risk and residual value risk). Such risks may arise either because of shared risk drivers (e.g. volume of loan receivables from the leasing business) or result from risk drivers that are independent of each other (e.g. LGD and AMP).

To take account of inter-concentration risk, BMW Bank GmbH first of all uses a conservative aggregation of the overall risk potential for purposes of the economic approach to risk-bearing capacity, i.e. aggregation without diversification between the various types of risk. Secondly, the interaction of individual drivers of risks and earnings is considered from the normative perspective in addition to being regularly analyzed and quantified in the context of cross-risk stress tests.

4.4 Risk-bearing capacity

BMW Bank GmbH considers risk-bearing capacity from both the economic perspective and the normative perspective. The premise of the economic approach is the protection of creditors in the event the risks are realized. The purpose of the normative approach is ensuring future compliance with the key regulatory capital requirements.

In assessing risk-bearing capacity from the economic perspective, BMW Bank GmbH relies on in-house methods meeting the normal standards as well as the requirements of the regulatory environment, including Basel III and BaFin's ICAAP Guideline.[14] Economic capital (potential risk) is measured under various value-at-risk methods using a confidence level of 99.98 % and a holding period of one year. This is compared with the existing risk coverage potential, which is derived from regulatory own funds based on net present value (NPV) approximation taking account of internal deduction items. The risk coverage potential calculated based on NPV approximation is validated by annual comparison with the net present value of the institution (i.e. risk coverage potential quantified under the full-fledged NPV approach).

The process of limiting, monitoring, and managing risks from the economic perspective involves setting limits for the types of risks that are classified as material: counterparty default risks, residual value risk, interest rate risk (subdivided into repricing risk, yield curve risk, and tenor basis risk), refinancing cost risk, operational risks, and pension risk. The extent of limit utilization is monitored on a monthly basis and reported to management. The risk-bearing capacity of BMW Bank GmbH was assured at all times in 2020 from the economic perspective.

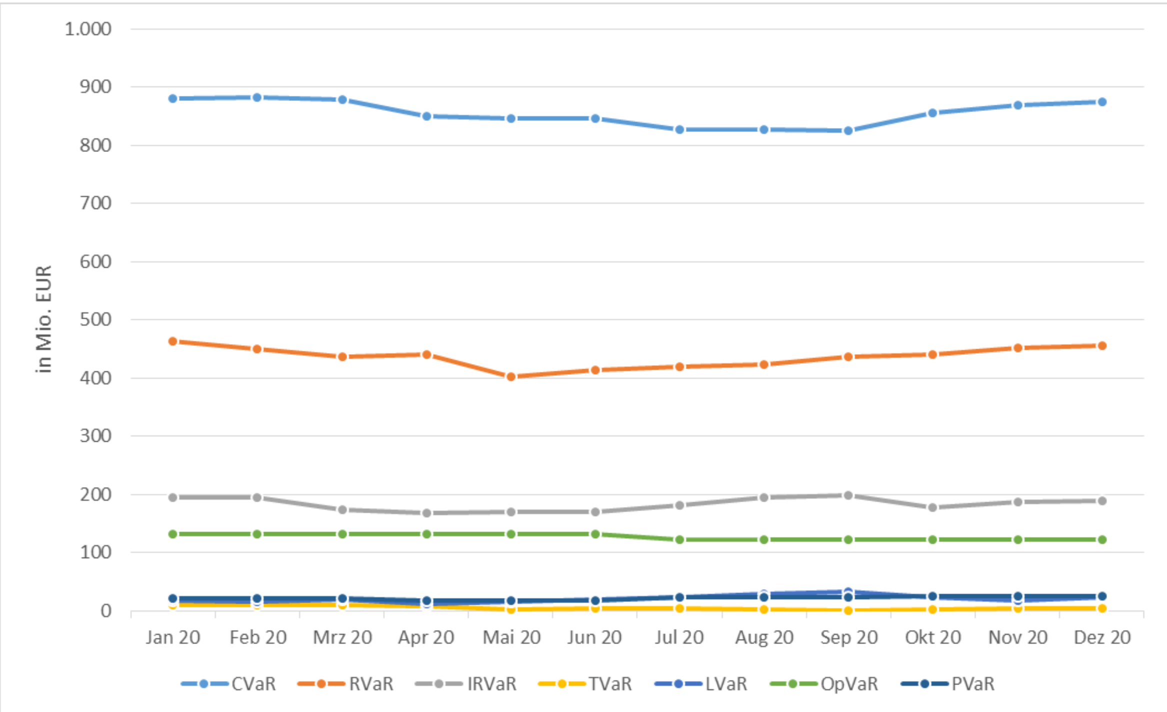
[14] "Supervisory Assessment of Bank-Internal Capital Adequacy Concepts and their Integration into the Overall Performance and Risk Management Processes (ICAAP) – Updated version," May 2018.

	12/31/2020			12/31/2019		
Types of material risks	**Limit**	**Utilization**	**Utilization**	**Limit**	**Utilization**	**Utilization**
	EUR million	EUR million	In %	EUR million	EUR million	In %
Counterparty default risks (CVaR)	1,011.0	875.3	86.6 %	912.0	796.7	87.4 %
Residual value risk (RVaR)	538.0	454.8	84.5 %	494.0	442.3	89.5 %
Repricing and yield curve risk (IRVaR)	229.0	189.6	82.8 %	209.0	183.6	87.8 %
Tenor basis risk (TVaR)	29.0	4.5	15.5 %	24.0	8.4	35.0 %
Refinancing cost risk (LVaR)	44.0	22.3	50.7 %	85.0	32.0	37.6 %
Operational risks (OpVaR)	136.0	122.0	89.7 %	147.0	132.0	89.8 %
Pension risk (PVaR)	26.0	24.2	93.1 %	26.0	23.9	91.9 %
Total risk	**2,013.0**	**1,692.7**	**84.1 %**	**1,897.0**	**1,618.9**	**85.3 %**
Risk coverage potential		**3,192.4**			**3,020.1**	
Utilization of risk coverage potential		**53.0 %**			**53.6 %**	

Risk-bearing capacity of BMW Bank GmbH from the economic perspective

In addition to the limits, a so-called minimum risk buffer (safety margin) is set as risk appetite for risk-bearing capacity from the economic perspective. This represents the minimum amount by which the existing risk coverage potential should at all times exceed the overall limit fixed for economic capital. This ensures that BMW Bank GmbH has sufficient capital on hand in situations requiring the limits to be increased during the year in progress. The minimum risk buffer includes a management buffer for unforeseeable developments and also covers other things, such as intangible risks (e.g. maintenance risk).

The following graph shows, from the economic perspective, the development of the material risks of BMW Bank GmbH in euro millions over the course of the year 2020:



Development of the material risks of BMW Bank GmbH in 2020 from the economic perspective

The development of counterparty default risks (CVaR) in 2020 largely followed that of the portfolio itself, which was influenced by the coronavirus crisis. Residual value risk (RVaR, unexpected loss) declined to the same extent due to the May 2020 increase in the allowances for residual value risk (to cover the expected loss). Interest rate risk (IRVaR, TVaR) reflects measures deliberately taken to reduce this risk after the interest market became quite volatile during the first coronavirus lockdown in the spring of 2020. With regard to operational risks (OpVaR), the equity required under the Basel standardized approach declined slightly following adoption of the 2019 financial statements in July 2020. The increases in refinancing cost risk (LVaR) relate primarily to the measures taken to protect the Bank's liquidity (e.g. ABS open market transaction) as a result of the coronavirus crisis. Pension risks (PVaR) rose somewhat in 2020 in response to falling interest rate levels.

In assessing risk-bearing capacity from the normative perspective, BMW Bank GmbH reviews compliance with the regulatory capital requirements with respect to the total capital ratio, the debt-equity ratio (leverage ratio), the large loan limit, and the Basel interest rate shock. In this connection as part of the Bank's capital planning process, future changes in the aforementioned 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 horizon.

At the level of risk appetite when analyzing risk-bearing capacity from the normative perspective, management has defined limits for the total capital ratio, the debt-equity ratio (leverage ratio), and the Basel interest rate shock. Compliance with the large loan limit is ensured using limits per borrower or per group of affiliated borrowers. In addition, for capital planning purposes limits have been defined that apply to future capital ratio planning figures and must be adhered to in the baseline scenario. Compliance with the regulatory capital requirements and with the internal limits that BMW Bank GmbH has set is monitored as part of the quarterly capital planning updates and reported to management.

The risk-bearing capacity of BMW Bank GmbH was assured at all times in 2020 from the normative perspective. According to the results of its annual capital planning for the years 2021 - 2023, BMW Bank GmbH will meet the regulatory capital requirements for total capital ratio, debt-equity ratio (leverage ratio), large loan limit, and Basel interest rate shock throughout the entire planning horizon both in the baseline scenario and in the adverse scenarios. To help ensure that its internally targeted total capital ratio, which exceeds the minimum capital ratio for regulatory purposes, is met in the years to come, the regulatory equity (own funds) of BMW Bank GmbH was increased by EUR 87.5 million in November 2020 through a capital contribution from BMW AG. An addition was also made to the special item for general banking risks under § 340g HGB in the context of the annual financial statements as of December 31, 2020.

4.5 Recovery planning

The German Federal Financial Supervisory Authority (BaFin) classifies BMW Bank GmbH as a so-called potentially system-threatening financial institution (PSI). 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 recovery plan prepared in 2020 for the year 2021 was transmitted to the supervisory authority on December 16, 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 early on with the help of the recovery plan indicators any economic instability in the position of BMW Bank GmbH and avert a crisis in timely fashion by means of the thresholds and early warning signals.

This involved defining options for action that affect equity capitalization, 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 or 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 based on a stress scenario. A market-wide scenario was examined that took account of findings from the coronavirus crisis. The stress scenario reflects the nature, scope, and complexity of the business activities of BMW Bank GmbH as well as the Bank's risk profile.

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 Risk reporting

Management is kept informed about risk management matters by means of periodic reports and presentations and ad hoc notifications as necessary.

A daily risk report informs management as to the current interest rate risk and the short-run liquidity risk.

The monthly risk report to management contains the results from monitoring all types of material risks. This includes, among other things, an overview of limit utilization for purposes of risk-bearing capacity from the economic perspective. The results as regards risk-bearing capacity from the normative perspective are presented in the risk report on a quarterly basis in the context of the capital planning reporting. Detailed quantitative and qualitative presentations of the types of material risks also take place at the level of BMW Bank GmbH and the individual markets. An outlook on further risk developments is provided in addition. The risk report is presented monthly in the Risk Committee, enabling management to take note of risk profile developments.

Extraordinary developments are reported ad hoc to management in any expedient form pursuant to the defined escalation procedures. With regard to the liquidity of BMW Bank GmbH, early warning indicators have in addition been established under the liquidity emergency planning process; if certain thresholds are reached, this is reported to management and triggers action as necessary.

Depending on the planning horizon, the results of the stress test calculations are provided to management ad hoc, monthly, quarterly, or annually.

The status of the recovery plan indicators is likewise regularly mapped, monitored, and reported to management pursuant to the escalation procedure if an early warning signal is activated or a recovery plan threshold is crossed.

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. CRD V was transposed into German law as part of the Risk Reduction Act (RiG), which was finalized in December 2020.

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

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.

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, 2020, 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, such as the new definition of default, take effect on January 1, 2021 as a result of the harmonization of the internal rating approaches across Europe. The new definition of default was implemented on time by the end of December 2020. For revision of the risk models, an implementation project was created and the corresponding implementation plan was presented to the supervisory authority. Implementation plan approval is still pending.

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.

New or amended national or supranational regulatory requirements, such as the BaFin Guidance Notice on Dealing with Sustainability Risks, are identified under a periodic monitoring process and reviewed for relevance for BMW Bank GmbH. Action is taken as necessary to close compliance gaps.

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 group 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)

Under the Act for Equal Participation of Women and Men in Private and Public Sector Management Positions, targets of one woman on the Management Board and one woman on the Supervisory Board were established for BMW Bank GmbH by shareholder resolution of April 28, 2017. These targets were to be reached by December 31, 2020. Since June 15, 2018, two seats on the Supervisory Board have been held by women, thus exceeding the target set. The target for the Management Board has been fulfilled since April 1, 2020.

On January 31, 2017, the Management Board of BMW Bank GmbH established target percentages for women of 8.0 % and 30.0 % respectively for the top two management tiers beneath the Management Board. This goal was likewise to be reached by December 31, 2020. As of December 31, 2020, the percentage of women in tier 1 management was 17.1 % and that in tier 2 management was 28.7 %. The Bank thus exceeded one target by a wide margin, but fell short of the other. Personnel changes in the second half of 2020 were the reason why the 30.0 % target for women in tier 2 management was not reached; as of June 30, 2020, the percentage of women in tier 2 management positions still stood at 30.2 %.

7. Outlook

According to the current estimate of the International Monetary Fund (IMF), the world economy will experience strong growth in 2021 and expand by 5.5 % year-on-year. It appears correct to assume that many countries will continue pursuing expansive monetary and fiscal policies in 2021 so as to stimulate economies that were battered by the coronavirus pandemic. Recovery effects may in addition make themselves felt and impart additional momentum to post-lockdown economies. However, the course actually taken by events will depend greatly on the progress and success of the vaccination programs currently under way. Nevertheless, the expectation remains that 2021 will see a slight but sustainable economic upturn.

After plunging last year because of the coronavirus crisis, eurozone GDP is expected to recover in 2021. GDP growth of 4.6 % is forecast for the eurozone as a whole. This rise is being supported by liberal monetary and fiscal policy and by a progressively reviving world economy. Lower growth of 3.9 % is expected for Germany. This is explicable in terms of the a 2020 downturn that was less severe in Germany compared with other eurozone countries.

The countries in the southern part of the euro area were hit harder by the coronavirus crisis and, following a deeper drop last year, are now expected to experience a stronger economic recovery. Growth of 4.8 % is expected for Portugal, 5.1 % for Italy, and 5.8 % for Spain. The dynamic economic recovery would thus in part be due to the fact that a sharp downturn is not infrequently followed by an impressive rebound.

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.

We expect the effects of the pandemic to make themselves felt on the international automobile markets in 2021 as well. While new registrations are expected to surge by 7.7 % worldwide, overall this still means that considerably fewer vehicles will be sold than before the coronavirus crisis. Marked year-on-year growth of 4.2 % is also expected for Europe's automobile markets. However, this will not yet be enough to bring the markets back to their pre-crisis levels.

	2020 Actual	Forecast for 2021
Fluctuation rate[15]	7.4 %	In line with prev. yr.
Return on risk adjusted capital (RORAC)[16]	2.5 %	Clear improvement
New retail business lending volume (in € billions)[17]	9.3	In line with prev. yr.
Administrative expense per contract in €[18]	244.0	In line with prev. yr.
Cost-Income Ratio[19]	42.3 %	In line with prev. yr.

For 2021, BMW Bank GmbH anticipates a **fluctuation rate** on a par with last year.

Economic capital is expected to remain stable and net operating income is expected to rise considerably. Consequently, significant improvement in **RORAC** is thus forecast for 2021.

BMW Bank GmbH expects **new business lending volume** to be on a par with last year.

No change is anticipated in **administrative expense per contract** since both expense and the number of existing contracts will increase slightly. Despite rising costs due to higher net operating income, the **cost-income ratio** is also expected to be on a par with last year.

Accurate forecasting of business performance for BMW Bank in the year 2021 is rendered difficult by the current uncertainty regarding the special coronavirus situation and its potential impact on the affected countries.

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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)

Management will monitor further developments in fiscal year 2021 and analyze their potential impact on the performance indicators.

Munich, March 15, 2021

The Management

Dr. Kathrin Kerls 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, 2020

Balance Sheet as of December 31, 2020 for BMW Bank GmbH, Munich

Assets

	12/31/2020 EUR thousand	12/31/2019 EUR thousand
1. Cash reserve		
a) Cash on hand	1	1
b) Deposits with central banks	1,193,446	240,819
Thereof: Deutsche Bundesbank	**1,193,447**	**240,820**
EUR 1,193,416 thousand; previous year EUR 240,789 thousand		
2. Receivables from credit institutions		
a) Due on demand	192,234	416,821
b) Other receivables	10,251	74,151
	202,485	**490,972**
3. Receivables from customers	**13,293,894**	**14,799,290**
Thereof: secured by mortgage		
EUR 28,093 thousand; previous year EUR 51,279 thousand		
4. Bonds and other fixed-income securities		
a) Bonds and debt securities		
aa) From public issuers	115,957	364,839
Thereof: eligible as collateral with Deutsche Bundesbank		
EUR 114,926 thousand; previous year EUR 361,373 thousand		
ab) From other issuers	364,451	383,021
Thereof: eligible as collateral with Deutsche Bundesbank		
EUR 0 thousand; previous year EUR 0 thousand		
	480,408	**747,860**
5. Leased assets	**12,975,800**	**11,884,662**
6. Property, plant, and equipment	**351**	**801**
7. Other assets	**550,413**	**472,338**
8. Prepaid expenses	**4,772**	**6,453**
9. Surplus of plan assets over pension liabilities	**26,623**	**23,331**
Total assets	**28,728,193**	**28,666,527**

Munich, March 15, 2021

The Management

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

Balance Sheet as of December 31, 2020 for BMW Bank GmbH, Munich

Equity and Liabilities

	12/31/2020 EUR thousand	12/31/2019 EUR thousand
1. Liabilities to credit institutions		
a) Due on demand	23,258	27,492
b) With fixed term or withdrawal notice	51,493	51,582
	74,751	**79,074**
2. Liabilities to customers		
a) Savings deposits		
aa) With fixed withdrawal notice of three months	3,357,880	3,754,920
b) Other liabilities		
ba) Due on demand	4,365,339	4,162,121
bb) With fixed term or withdrawal notice	10,025,361	9,248,228
	17,748,580	**17,165,269**
3. Other liabilities	**6,243,520**	**7,126,455**
4. Deferred income	**790,229**	**749,388**
5. Provisions		
a) Provisions for pensions and similar obligations	2,758	2,291
b) Tax provisions	20,107	37,035
c) Other provisions	310,503	219,271
	333,368	**258,597**
6. Fund for general banking risks	**1,462,500**	**1,300,000**
7. Equity		
a) Subscribed capital	12,300	12,300
b) Capital reserve	2,059,712	1,972,211
c) Retained earnings		
ca) Other retained earnings	3,233	3,233
	2,075,245	**1,987,744**
Total equity and liabilities	**28,728,193**	**28,666,527**

	12/31/2020	12/31/2019
1. Contingent liabilities		
a) Liabilities from warranties and guarantee agreements	692	772
2. Other obligations		
a) Committed credit facilities	266,137	120,753

Munich, March 15, 2021

The Management

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

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Income Statement of BMW Bank GmbH, Munich

for the Period from January 1 to December 31, 2020

		2020			2019		
		EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
1.	**Interest income**						
	a) From lending and money market transactions	702,589			672,795		
	b) Negative interest income from lending and money market transactions	-1,752			-1,965		
	c) From fixed-income securities and debt register securities	6,745	707,582		10,771	681,601	
2.	**Interest expenses**						
	a) Interest expenses	-217,458			-182,615		
	b) Positive interest expense	5,367	-212,091	**495,491**	311	-182,304	**499,297**
3.	**Leasing income**		4,906,667			4,309,200	
4.	**Leasing expenses**		-2,636,344	**2,270,323**		-2,279,277	**2,029,923**
5.	**Commission income**		130,422			124,915	
6.	**Commission expenses**		-241,676	**-111,254**		-246,041	**-121,126**
7.	**Other operating income**			**223,136**			**246,834**
8.	**General administrative expenses**						
	a) Personnel expenses						
	aa) Wages and salaries	-100,136			-98,511		
	ab) Social security contributions, pensions and other benefits	-19,197	-119,333		-17,047	-115,558	
	Thereof: for pensions EUR 4,388 thousand; previous year EUR 2,605 thousand						
	b) Other administrative expenses		-167,193	**-286,526**		-164,146	**-279,704**
9.	**Writedowns and impairments**						
	a) On leased assets		-2,004,925			-1,733,739	
	b) On intangible and tangible assets		-161	**-2,005,086**		-251	**-1,733,990**
10.	**Other operating expenses**			**-125,422**			**-143,347**
11.	**Addition to the fund for general banking risks**			**-162,500**			**-220,000**
12.	**Write-downs and impairments for receivables and certain securities as well as additions to loan-loss provisions**			**-256,191**			**0**
13.	**Income from writeups to receivables and certain securities as well as from reversal of loan loss provisions**			**0**			**45,068**
14.	**Net operating income**			**41,971**			**322,955**
15.	**Income taxes**			**-41,243**			**-60,581**
16.	**Other taxes, to the extent not included in item 10**			**-728**			**-1,000**
17.	**Profits transferred under a profit and loss transfer agreement**			**0**			**-261,374**
18.	**Net income**			**0**			**0**

Munich, March 15, 2021

The Management

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

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BMW Bank GmbH, Munich
Notes to the Financial Statements for Fiscal Year 2020

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 are 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 the lower of cost or their properly assignable value (fair value) 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. 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.

In 2020, in addition to the model-based impairments, further allowances were also made to account for the special coronavirus situation. Given the lack of historical experience regarding effects and duration, the existing models were not yet able to completely cover this special situation. The additional allowances were determined on the basis of selected scenarios.

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 paper classified as fixed assets is based on the intended holding period until maturity and the modified lower-of-cost-or-market principle.

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.

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 2.30 % discount rate for pension benefits and a rate of 0.45 % for partial retirement benefits commitments as well as an expected wage and salary increase of 2.67 %. 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 in conj. with § 340h HGB at the spot rate on the reporting date. Assets and liabilities in the same currency are classified as specifically covered and all expense and revenue is reflected in the income statement. Currency conversion effects from transactions in the same currency that are specifically covered are stated beginning with fiscal year 2020 as net items resulting from exchange rate gains and losses.

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, 2020 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 is 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

Cash reserve

The cash reserve consists primarily of deposits with central banks in an amount of EUR 1,193.4 million (previous year: EUR 240.8 million).

Receivables from credit institutions

Receivables from credit institutions include receivables from affiliated companies in the amount of EUR 38.6 million (previous year: EUR 66.7 million).

Receivables from customers

Receivables from customers include receivables from leasing business in the amount of EUR 1,484.4 million (previous year: EUR 1,337.6 million) as well as EUR 491.9 million (previous year: EUR 720.9 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 480.4 million (previous year: EUR 747.9 million). Three securities in an aggregate carrying amount of EUR 95.8 million will mature in the 2021 fiscal year.

The carrying amount of the securities that are eligible to serve as collateral with Deutsche Bundesbank amounts to EUR 114.9 million as of December 31, 2020. Funding from this source was drawn on in fiscal year 2020. As of the reporting date, BMW Bank GmbH had not borrowed against any of the securities deposited with Deutsche Bundesbank.

Leased assets

As security for third-party liabilities, BMW Bank GmbH transferred title to lease vehicles in the amount of EUR 12,658.6 million (previous year EUR 11,723.1 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:

	12/31/2020	12/31/2019
	EUR million	EUR million
Receivables from affiliated companies from ABS transactions	194.4	175.8
Tax assets	177.9	161.9
Trade receivables	112.3	35.6
Collateral deposited for OTC derivatives	28.3	47.8
Other	37.5	51.2
Other assets	**550.4**	**472.3**

The receivables from affiliated companies from ABS transactions include subordinated debt claims in an amount of EUR 29.8 million (previous year: EUR 36.0 million) as well as quasi-certain pro rata claims legally accruing in the future (excess spread).

Other assets include EUR 0.4 million in receivables from the leasing business (previous year: EUR 0.7 million).

2. Equity and Liabilities

Liabilities to credit institutions

As of the reporting date, liabilities to credit institutions amount to EUR 74.8 million (previous year: EUR 79.1 million).

Liabilities to customers

This item includes EUR 7,001.3 million in amounts owed to affiliated companies (previous year: EUR 7,755.2 million). EUR 4,575.6 million of this total was secured by the transfer of title to vehicles (previous year: EUR 2,750.9 million).

Other liabilities

This item breaks down as follows:

	12/31/2020	12/31/2019
	EUR million	EUR million
Liabilities from ABS transactions	5,924.1	6,514.7
Trade payables	234.9	269.5
Tax liabilities	9.6	9.4
Transfer of profit (loss) to the shareholder	0.0	261.4
Other	74.9	71.4
Other liabilities	**6,243.5**	**7,126.4**

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 declined from EUR 6,514.7 to EUR 5,924.1 million in the fiscal year elapsed. The ABS transactions are collateralized by leased assets in an amount of EUR 8,083.0 million (previous year 8,972.2 million). One ABS transaction expired in 2020 and was replaced by an new transaction; in addition, another ABS transaction was entered into and then terminated during the fiscal year.

Given the break-even result for the year, an amount of EUR 0.0 (previous year: EUR 261.4 million) was transferred to the shareholder under the profit and loss transfer agreement.

Deferred income

This item breaks down as follows:

	12/31/2020	12/31/2019
	EUR million	EUR million
Leasing down-payments	492.2	428.6
Interest subsidies	244.8	258.6
Prepaid interest from the lending business	39.6	44.1
Other	13.6	18.1
Deferred income	**790.2**	**749.4**

Provisions for pensions and similar obligations

The cost of the assets used to fund retirement benefits amounts to EUR 69.3 million (previous year: EUR 65.8 million). The properly assignable present value (fair value) of the plan assets, as determined by the market values of the capital management companies on the reporting date, amounted to EUR 95.9 million (previous year: EUR 84.3 million). Corresponding liabilities amount to EUR 72.1 million (previous year: EUR 63.3 million). In 2020, the offsetting of plan assets and liabilities resulted in EUR 10.3 million in expense (previous year: EUR 11.1 million); this was netted against corresponding income of EUR 8.6 million (previous year: EUR 12.8 million).

The acquired plan assets are 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 amounts to EUR 26.6 million (previous year: EUR 23.3 million). For the "retirement capital" plan, the deficit (net liability) after netting was EUR 2.8 million (previous year: EUR 2.3 million); this was included in a pension provision.

In fiscal year 2020, the compounding of discounted pension provisions led to interest expense in an amount of EUR 7.3 million (previous year: EUR 8.4 million).

The difference between discounting pension provisions using a 10 year average rate (EUR 72.1 million; previous year: EUR 63.3 million) and a 7 year average rate (EUR 83.1 million; previous year: EUR 73.5 million) was EUR 11.3 million (previous year: EUR 10.4 million).

Other provisions

Other provisions comprise the following items:

	12/31/2020	12/31/2019
	EUR million	EUR million
Litigation and collection costs	140.4	43.5
Outstanding invoices	39.3	43.2
Commissions payable	32.7	36.9
Personnel matters	25.8	26.9
Other	72.3	68.8
Other provisions	**310.5**	**219.3**

Partial retirement commitments are covered by a bank guarantee. Liabilities exist in an amount of EUR 3.3 million (previous year: EUR 2.4 million). EUR 1.8 million in expenses were recognized in fiscal year 2020 (previous year: EUR 0.7 million) and income of EUR 0.8 million (previous year: EUR 0.0 million).

Fund for general banking risks

The special item **fund for general banking risks** pursuant to § 340g HGB increased year-on-year to EUR 1,462.5 million (previous year: EUR 1,300.0 million). The increase takes the form of an addition from current-year net income in an amount of EUR 162.5 million. BMW Bank GmbH thereby strengthens its equity (own funds).

Equity

Subscribed capital (EUR 12.3 million) and retained earnings (EUR 3.2 million) are unchanged compared with the previous year. The capital reserve of BMW Bank GmbH has increased to EUR 2,059.7 due to a contribution from the shareholder (previous year: EUR 1,972.2).

D. Notes to the Income Statement

Net interest income

The net interest income of EUR 495.5 million (previous year: EUR 499.3 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 2,270.3 million in net leasing income (previous year: EUR 2,029.9 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 111.3 million (previous year: EUR 121.1 million) includes above all income and expense relating to customer and dealer financing and insurance brokerage services.

Other operating income

Other operating income comprises the following items:

	12/31/2020	12/31/2019
	EUR million	EUR million
Income from customer business	75.3	71.8
Claims settlement compensation receivable	54.0	57.1
Reversal of provisions	34.8	35.5
Income from service level agreements	11.9	16.1
Income from currency conversion gains	0.0	11.6
Other	47.1	54.7
Other operating income	**223.1**	**246.8**

EUR 116.8 million in income (previous year: EUR 119.1 million) is attributable to the leasing business and results from insurance claim settlement, from fees, and from vehicle seizures.

Currency conversion effects from transactions in the same currency that are specifically covered are stated beginning with fiscal year 2020 as a net item resulting from exchange rate gains and losses.

Depreciation of leased assets

Depreciation expenses on leased assets amount to EUR 2,004.9 million (previous year: EUR 1,733.7 million). The year-on-year increase results above all from growth in leased assets and adjusted residual value forecasts in light of the special coronavirus situation.

Other operating expenses

Other operating expenses comprise the following items:

	12/31/2020	12/31/2019
	EUR million	EUR million
Levies and charges	44.8	37.4
Derecognition of vehicles at end of lease agrmt.	32.2	30.3
Additions to provisions	19.6	25.8
Legal and collection costs	12.9	12.7
Expense from currency conversion losses	0.0	11.6
Other	15.9	25.5
Other operating expenses	**125.4**	**143.3**

Other operating expenses include costs of the leasing business in the amount of EUR 49.2 million (previous year: EUR 46.5 million).

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

In 2020, writedowns and impairments of receivables and certain securities result in expense of EUR 256.2 million (previous year: revenue EUR 45.1 million). The expense in 2020 is caused above all by additional allowances for credit risks in light of the special coronavirus situation, including an addition of EUR 22.2 million to risk allowances under § 340f HGB. Furthermore, in 2019 the allowance for general banking risks under § 340f HGB was reversed in an amount of EUR 110.0 million, which was transferred to the fund for general banking risks under § 340g HGB.

Direct writeoffs of receivables amounted to EUR 20.5 million (previous year: EUR 21.6 million). Income from receivables previously written off declined from EUR 5.7 million to EUR 4.4 million.

Income taxes

Taxes on income and earnings (EUR 41.2 million; previous year: EUR 60.6 million) reflect in particular the income taxes of the foreign branches.

E. Other Notes

1. Subsequent events

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 12/31/2020 and 12/31/2019:

12/31/2020	Shareholder	Other affiliated companies	Total
	EUR million	EUR million	EUR million
Receivables from credit institutions	0.0	38.6	38.6
Receivables from customers	0.3	39.4	39.7
Other assets	78.2	199.9	278.1
Liabilities to customers	401.2	6,600.1	7,001.3
Other liabilities	139.9	5,966.5	6,106.4

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

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.

12/31/2020	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 million	EUR million	EUR million	EUR	EUR million	EUR
Other receivables from credit institutions	1.0	0.5	0.0	0.0	0.0	1.5
Receivables from customers	3,183.1	3,257.4	6,749.6	76.4	27.5	13,294.0
Liabilities to credit institutions with fixed term or withdrawal notice	49.9	0.0	0.0	0.0	0.0	49.9
Other liabilities to customers with fixed term or withdrawal notice	1,038.4	2,664.1	6,286.8	22.0	0.0	10,011.3

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 million	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 fixed term or withdrawal notice	49.9	0.0	0.0	0.0	0.0	49.9
Other liabilities to customers with fixed term or withdrawal notice	996.7	2,463.7	5,752.1	26.6	0.0	9,239.1

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 (2) 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	
	2020	2019	2020	2019	2020	2019
Interest income	162.9	162.9	136.8	132.9	15.9	16.1
Commission income	24.1	27.5	13.8	14.9	1.4	1.4
Other operating income	75.8	74.0	36.9	48.1	6.2	5.3

BMW Bank GmbH furthermore derives income from worldwide financing of BMW Importers in the amount of EUR 8.7 million (previous year: EUR 8.8 million), of which EUR 4.3 million stem from business transacted in USD (previous year: EUR 5.2 million). Due to the low level of income derived outside the EU compared to total income, this is not separately stated.

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 6.1 billion in hedged items on the assets side (receivables from customers) and EUR 6.2 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 4.6 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:

	2020		2019	
	Nominal amount EUR million	Fair value EUR million	Nominal amount EUR million	Fair value EUR million
Interest rate swaps with positive fair values	2,312.3	2.6	1,829.2	3.4
Interest rate swaps with negative fair values	282.0	-0.1	1,662.2	-2.0
Derivative financial positions	**2,594.3**	**2.5**	**3,491.4**	**1.4**

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

The fair value of swaps is measured in line with their present value, which is 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 have a carrying amount of EUR 0.1 million as of December 31, 2020 (previous year: EUR 2.0 million).

7. Contingent liabilities and commitments

Irrevocable loan commitments (committed credit facilities) exist for dealer financing (EUR 266.1 million; previous year: EUR 113.8 million). These may be drawn on at any time.

The contingent liabilities consist of liabilities from obligations as surety / guarantor and amount to EUR 0.7 million (previous year: EUR 0.8 million). The risk of having to meet these obligations is deemed minimal as there are no identifiable risks as of the reporting date.

8. Off-balance sheet transactions and other financial commitments

BMW Bank GmbH's other financial commitments amount to EUR 74.1 million as of the balance sheet date (previous year: EUR 59.9 million). They consist primarily of commitments to BMW AG from the invoicing of outsourced IT services (EUR 70.6 million; previous year: EUR 56.4 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:

	12/31/2020		12/31/2019	
	USD	EUR	USD	EUR
Receivables from credit institutions	17.6	14.4	26.8	23.9
Receivables from importer financing	209.3	170.7	219.2	195.3
Receivables from importer financing subsidies	0.3	0.2	0.5	0.4
Liabilities from importer financing	226.7	184.9	246.0	219.2

10. Management Board and Supervisory Board

Members of the Management Board

The members of the Management Board are as follows:

Dr. Kathrin Kerls (since 4/1/2020)
Chairwoman of the Management Board

Hans-Jürgen Cohrs (until 3/31/2020)
Chairman of the Management Board

Hans-Peter Mathe
Head of Sales & Marketing

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 2.5 million (previous year: EUR 2.3 million) for their services.

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*
BMW Automotive Finance (China) Co. Ltd.*

Birgit Böhm-Wannenwetsch
Head of Group Finance for the BMW Group
BMW China Investment Ltd.*

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

Horst Erik Fischer
Chairman 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*
The members of the Supervisory Board received no remuneration for their services.

11. Number of employees

The average number of employees increased to 1,169 (previous year: 1,160); of these, 158 work part-time (previous year: 156).

	2020	2019
Germany, Munich	753	759
Branches		
Italy, San Donato Milanese	209	208
Spain, Madrid	158	148
Portugal, Porto Salvo	49	45
Total employees	**1,169**	**1,160**

* Membership in comparable domestic or foreign supervisory bodies.

12. Auditor's services and fees

The services rendered in fiscal year 2020 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. The statutory audit services also included Project review services for IT-based accounting-related systems.

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 2020 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 15, 2021

The Management

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

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Statement of Fixed Assets

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Attachment 1

Statement of Fixed Assets of BMW Bank GmbH, Munich, for Fiscal Year 2020

	Acquisition costs					Accumulated depreciation						Carrying amounts	
	1/1/2020	Additions	Disposals	Transfer	12/31/2020	1/1/2020	Additions	Write-ups	Disposals	Transfer	12/31/2020	12/31/2020	12/31/2019
	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	382,900	56,750	75,300	-	364,350	-	-	-	-	-	-	364,350	382,900
II. Leased assets	14,632,647	5,675,697	4,210,362	-	16,097,982	2,747,985	2,004,925	-	1,630,728	-	3,122,182	12,975,800	11,884,662
III. Property, plant and equipment*	4,880	49	486	-	4,443	4,079	161	-	148	-	4,092	351	801
	15,020,427	**5,732,496**	**4,286,148**	**-**	**16,466,775**	**2,752,064**	**2,005,086**	**-**	**1,630,876**	**-**	**3,126,274**	**13,340,501**	**12,268,363**

*Consist primarily of operating and office equipment (carrying amount EUR 351 thousand)

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Country-Specific Reporting Pursuant to § 26a (1) KWG as of 12/31/2020 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 net operating income without impairments and administrative expenses, including net interest income, net commission income, net leasing 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 German portion of the profit of BMW Bank GmbH, Munich, are borne by BMW AG under the rules governing tax consolidation. No public subsidies are received.

The required disclosures for 2020 were as follows (in EUR million):

Name	Country	Turnover	Average number of employees	Before tax profit	Taxes on profit
BMW Bank GmbH	Munich, Germany	2,443.1	753	-62.8	0.1
BMW Bank GmbH Succursale Italiana	San Donato Milanese, Italy	260.9	209	59.3	19.2
BMW Bank GmbH Sucursal en Espana	Madrid, Spain	154.2	158	38.4	20.3
BMW Bank GmbH Sucursal Portuguesa	Porto Salvo, Portugal	19.5	49	7.1	1.6

The comparison figures for 2019 were (in EUR million):

Name	Country	Turnover	Average number of employees	Before tax profit	Taxes on profit
BMW Bank GmbH	Munich, Germany	2,244.6	759	135.9	0.1
BMW Bank GmbH Succursale Italiana	San Donato Milanese, Italy	242.4	208	107.1	36.8
BMW Bank GmbH Sucursal en Espana	Madrid, Spain	149.4	148	70.5	21.4
BMW Bank GmbH Sucursal Portuguesa	Porto Salvo, Portugal	18.5	45	9.5	2.3

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 2020 (2019: 0.00 %).