INTERIM REPORT 30 JUNE 2022

BMW FINANCE N.V.

BMW
GROUP

[redacted]

Dear Ladies and Gentlemen,

The directors present their interim management report and interim financial statements for the first half year which ended on 30 June 2022. This half-yearly financial information has been prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting”. The Interim Report 2022 has been prepared using the same accounting methods as those utilised in the Annual Report 2021. The interim financial statements for the six months ended 30 June 2022 have not been audited, but reviewed.

The interim financial information has been included within the reviewed interim Group Financial Statements of BMW AG for the first half year ending on 30 June 2022.

This interim report may contain forward-looking statements based on current expectations of the management. Various known and unknown risks, uncertainties and other factors could lead to considerable differences between the actual future results, financial situation development and/or performance and the historical results presented. Undue reliance should not be placed on forward-looking statements which speak only as of the date of this interim report.

In 1983, BMW Finance N.V. (hereafter also referred to as the “Company”) was founded as a wholly owned subsidiary of BMW Holding B.V., who in turn is a wholly owned subsidiary of BMW Intec Beteiligungs GmbH, a wholly owned subsidiary of BMW AG, and incorporated in the Netherlands. The main purpose of the Company was and is to assist in the financing of business activities conducted by companies of the BMW Group and its affiliates as well as to provide financial services in connection therewith.

During the first half year under report, the Company has successfully managed many challenges and embraced important growth opportunities. The Board of Director’s gives an overview of these developments in the paragraphs below.

The Company’s activities and risk management

The core business of the Company comprises primarily financing BMW Group companies priced in accordance with the “at arm’s length” principle. Consequently, the main activities are providing long-term liquidity and intercompany funding for BMW Group companies. Based on its activities, the Company has identified the most important risks associated with its activities. The main categories of risk are credit and counterparty default risk, currency risk, interest rate risk, liquidity risk, and operational risk. Group policies, guidelines, control systems, and threshold structures are essential to making the Company’s risk appetite an intrinsic part of the business, as they help minimize all the risks and control them at an acceptable level.

Firstly, protection against such risks is provided by so-called natural hedges that arise when the values of non-derivative financial assets and liabilities have matching maturities, amounts (netting), and other properties. Derivative financial instruments are used, such as interest rate swaps and cross currency swaps, to reduce the risk remaining after taking into account the effects of natural hedges. With regard to interest rate risk, the Company successfully implemented the financial strategy of the BMW Group, which is explained in more detail in note 11.

Non-financial risks could arise from operating risks such as the risk of fraud and compliance risk. Risk of fraud is mainly identified in the area of misappropriation of assets. The Company has aligned its internal control and risk management system on misappropriation of assets and financial reporting in accordance with the BMW Group policy. Risk management is based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) model, where the relevant processes include the early identification of risks and opportunities, their measurement and the use of suitable instruments to manage and monitor risk. The Company has established an encompassing reporting system that provides decision makers with comprehensive, up-to-date information and insights into developments regarding the capital markets.

The Company has locally implemented the BMW Group’s Company-wide Compliance Management System (‘CMS’). CMS is based on the Prevent, Detect, Respond Model, which defines specific prevention, monitoring, control and response measures, on the basis of clearly assigned roles and responsibilities. The CMS is tailored to the Company's specific risk situation. It addresses all relevant compliance topics, including fraud prevention. An effective and efficient compliance organisation is fundamental to reducing sanction and liability risks, as well as risks arising from other (non) financial disadvantages, such as reputation risks.

By regularly sharing experiences with other counterparties, we ensure that innovative ideas and approaches are included in the risk management system and that risk management is subjected to continuous improvement. The employees of the Company follow regular trainings as well as information events, which are invaluable ways in preparing employees for new or additional requirements. The overall risk management process within the BMW Group is managed centrally and reviewed for appropriateness and effectiveness by the BMW Group's internal audit department, which is acting upon this as an independent authority. Please refer to the BMW Group's financial statements for more detailed information.

Given the objectives of the Company, the Company is economically interrelated with the ultimate holding company, BMW AG, Germany. In assessing the solvency and general risk profile of the Company, the solvency of the BMW Group as a whole, headed by BMW AG, needs to be considered. Solvency is assured by managing and monitoring the liquidity situation on the basis of a rolling cash flow forecast. The resulting funding requirements are secured by a variety of instruments placed on the world's financial markets. The objective is to minimize risk by matching maturities for the BMW Group's financing requirements within the framework of the target debt ratio. The BMW Group has good access to capital markets as a result of its solid financial position and a diversified refinancing strategy. This is underpinned by the long-term ratings (Moody's as of March 26, 2021: A2 with stable outlook; S&P as of August 5, 2021: A with a stable outlook) and short-term ratings (Moody's as of March 26, 2021: P-1; S&P as of August 5, 2021: A-1) issued by Moody's and S&P. The debt securities of the Company are guaranteed by BMW AG.

At present, no risks have been identified which could threaten the going concern status of the Company or which could have a materially adverse impact on the net assets, financial position or results of operations of the Company.

Operations during the first half-year

In the half-year under report, the health crisis caused by the coronavirus, the rising inflation and in addition, Russia's war in Ukraine continued to have a negative impact on the economy while. In sharp contrast to the above, the company's results were extremely good. The following paragraphs focus on the development of the Company's operations in the first six months of 2022.

The first half year 2022 resulted in a gross income of euro 591.0 million (30.06.2021: gross income of euro 81.2 million). The Company interest margin amounted to a profit of euro 13.3 million (30.06.2021: euro 13.8 million) and its financial result to a profit of euro 592.0 million (30.06.2021: profit of euro 82.3 million). The change in the latter is driven by the fair value measurement of financial instruments which amounted to a in financing demand caused by the relief of the COVID-19 consequences and the rebound after the large economic decline during 2020. Further, current liabilities to BMW Group liabilities increased by 4 billion due to more intercompany financing. Finally, the interest receivables and other receivables increased to euro 98.6 million (2021: euro 0.1 million).

Debt capital markets

Despite the continuous impact of the Covid-19 pandemic and the related consequences for the economy and financial markets, the Company continues to enjoy good access to international capital markets and is also benefiting from attractive refinancing conditions. A broad range of instruments on international capital markets are used to finance the BMW Group companies worldwide.

The Company has successfully utilized the Euro Medium Term Note (“EMTN”) Program of euro 50.0 billion, the euro 5.0 billion Multi-Currency Commercial Paper Program together with the 2.0 billion French Commercial Paper (Billets de Trésorerie) Program in the period under report with the objective to refinance the BMW Group companies. The programs give the Company the ability to raise funds without significant administrative efforts.

Under the EMTN Program, the Company issued 2 new debt securities (30.06.2021: 2 new debt securities) with a nominal amount of euro 2.0 billion (30.06.2021: euro 1.5 billion) in the first half year of 2022. The net proceeds have been used for general BMW Group financing purposes. During the first half year the Company redeemed 10 EMTN’s (30.06.2021: 8 EMTN’s) with a nominal amount of euro 3.0 billion (30.06.2021: euro 2.3 billion).

In the first half year, the Company issued two public Chinese placements, so-called “Panda Bonds”, for an amount of Chinese renminbi 4.0 billion (30.06.2021: Chinese renminbi 3.5 billion) and redeemed two “Panda Bonds” with a nominal amount of Chinese renminbi 4.5 billion (30.06.2021: renminbi 1.5 billion). Through these private placements the Company operated on its great advantage of further tapping into the onshore Chinese debt capital market.

Furthermore, the Company has access to the US capital markets through the issuance of 144a bonds, leading to even more flexibility in securing funds and showing its possibility to access the world’s largest capital markets. In the period under report the Company did not issue or redeem any 144a bonds on the US capital market (30.06.2021: nil).

Despite the political, economic, and financial consequences of the coronavirus, rising inflation and the Russian war, the Company managed to maintain a healthy liquidity level in the first half year of 2022 and successfully issued EMTNs and Panda Bonds. This has ensured that the Company has remained one of the most frequent issuers of corporate bonds globally, despite the challenges mentioned above.

Economic outlook

In 2021 the easing of the COVID 19 restrictions led to a overall economic rebound. In 2022, the war in Ukraine, high energy prices chain distortions and high inflation led to downward revisions of economic growth forecasts for the near future. Pointing towards these high uncertainties, the International Monetary Fund (IMF) in April 2022 lowered its growth projections for global GDP to 3.2% for 2022 from 4.9%. In addition, the economic damage is already being felt worldwide and threatens to become increasingly severe and long-lasting. Russia’s invasion of Ukraine on 24 February 2022 has jeopardised the recovery of growth following the COVID 19 pandemic and caused a catastrophe throughout the region, destroying lives, homes and infrastructure. The consequences are felt worldwide. While the situation remains highly fluid and the outlook is subject to extraordinary uncertainty, the economic consequences are already seen in high energy and commodity prices. The sanctions on Russia will also have a substantial impact on the global economy, financial markets and EUR/RUB exchange rate.

The increased inflation is expected to persist for longer than forecasted, with ongoing supply chain disruptions and high energy prices continuing in 2022.

In July 2022 the US Federal Reserve raised its benchmark interest rates again with 0.75%, bringing the reference rate to a range of 2.25% to 2.5%. The US economic outlook moved to a restrictive stance of policy with a possibility that an even more restrictive stance could be appropriate if elevated inflation pressures were to persist. At the same time, policy firming could slow economic growth for a while.

The United Kingdom is set to grow by an estimated 3.7% in 2022 (from 5%) amidst high inflation, tight labour markets and expectations of weaker investment. According to the latest IMF forecasts, the UK economy will grow more slowly than all other G7 economies next year. In April the IMF estimated the UK's GDP growth for 2023 at 1.2%, but in its latest forecast it is revised downwards to 0.5%.

In light of the economic outlook and developments in the political environment, the Company believes that it will continue to face challenges, such as interest rate changes, for the remainder of 2022, for which it is preparing through its risk management procedures and strategic guidelines. The deterioration in economic environment had an opposite, positive effect on the Company's results in the first half of 2022. No major changes are expected for the rest of the year. As a result of the war in Russia and restrictions on monetary transfer with Russia, Russian counterparties have defaulted on their obligations to the Company. As BMW AG is providing the Company with a guarantee on financial receivables, so that the maximum loss on the Company's total receivables does not exceed euro 2 million, the negative impact on the defaulted Russian loans is very limited (see note 4). The same will also apply to the remaining outstanding loans with the Russian group companies.

The management of the Company does not see any threat to Company's status as going concern. As at 30 June 2022, the management's analyses do not give reason to any value or risk adjustments for the Company. The Company's financial position is stable, with liquidity requirements currently covered by available liquidity and credit lines. The Company continued to monitor the development of the pandemic and ensure that its people were safe and its business remained strong.

Regular in-depth dialogue with capital market participants has always been a high priority for the BMW Group. Within a short space of time, sustainability has become a key driver for the financial market. Investors and analysts are increasingly considering environment, social and governance (ESG) aspects in their investment recommendations and decision-making processes. For the main features of corporate social responsibility, we refer to the BMW AG group annual report.

Climate change

BMW Finance N.V.'s exposure is solely through BMW AG's potential impact from climate change, which BMW AG mitigates through geographic and technological diversification of assets and the existence of dedicated areas and plans for Crisis Management and Business Continuity at corporate level, among other mitigation measures. No significant impacts are expected for BMW Finance N.V.'s financial position.

Company information

According to the regulations of the Dutch Civil Law (Wet Toezicht Bestuur effective as of 1 January 2013) the Company's Board of Directors is unbalanced since less than 30% of the members is female. The Company's Board members have been appointed based on qualifications and availability, irrespective of gender. In order to create more balance the Boards will take these regulations into account to the extent possible with respect to future appointments of Board members.

The Hague, 23 August 2022

To the best of our knowledge and in accordance with the applicable reporting principles of the International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, the Interim Report gives a true and fair view of the assets, liabilities, financial position and profit or loss of BMW Finance N.V. The BMW Finance N.V. Interim Management's Report includes a fair review of the development and performance of the business and the position of BMW Finance N.V., together with a description of the principal opportunities and risks associated with the expected development of BMW Finance N.V.

BMW Finance N.V.

The Hague, 23 August 2022

in euro thousand	Note	1 January to 30 June 2022	1 January to 30 June 2021
Interest income BMW Group companies		287,481	170,483
Interest income Third parties		132,991	147,457
Interest related income		37,051	41,750
	[2]		
Interest expense BMW Group companies		(30,602)	(32,044)
Interest expense Third parties		(413,572)	(313,812)
	[2]		
	[2]		
Other financial income and expenses	[3]	873	1,292
Reversal of (Impairment loss) on financial receivables	[4]	(197)	(84)
Result from financial transactions	[5]	578,007	67,239
Miscellaneous income & expenses		(1,010)	(1,057)
Taxes	[6]	(158,955)	(20,306)
Cost of hedging (net effect after tax)		(5,352)	1,505
Basic earnings per share of common stock in euro			
From profit for the period		123,470	17,405

The total comprehensive income for the period is attributable to the shareholder of BMW Finance N.V.
The notes from page 13 to 30 form an integral part to the financial statements.

Before profit appropriation

in euro thousand	Note	30.6.2022	31.12.2021
Receivables from BMW Group companies	[7]	20,412,056	18,914,307
Derivative assets		725,139	664,738
Deferred tax asset	[8]	1,159	–
Receivables from BMW Group companies	[7]	22,062,141	21,695,068
Derivative assets		371,047	207,578
Cash and cash equivalents		13,769	6,236
Interest receivables and other receivables		98,554	1

in euro thousand	Note	30.06.2022	31.12.2021
Issued capital		1,750	1,750
Share premium reserve		55,488	55,488
Cost of hedging reserve		(3,337)	2,015
Retained earnings		247,222	128,333
Undistributed income		432,067	118,889
Debt securities	[9]	20,261,450	22,338,418
Loans due to banks		1,463,064	2,003,028
Liabilities due to BMW Group companies		270,000	775,000
Derivative liabilities		1,352,054	345,505
Deferred Tax Liability		–	701
Debt securities	[9]	8,618,836	8,973,612
Loans due to banks		394,355	720,487
Liabilities due to BMW Group companies		9,952,714	5,511,773
Derivative liabilities		343,689	316,589
Interest payables and other liabilities		294,513	196,340

The notes from page 13 to 30 form an integral part to the financial statements.

in euro thousand	1 January to 30 June 2022	1 January to 30 June 2021
Net income/(loss) for the period	432,066	60,918
Fair value measurement losses/(gains) derivatives	741,543	295,284
Fair value measurement losses/(gains) non-derivative financial instruments	(1,313,643)	(357,863)
Amortisation financial instruments	8,926	5,435
(Profit)/loss on revaluation of financial instruments	(7,213)	2,007
Change in impairment allowance	(197)	(84)
Taxes	158,955	20,306
Interest income	(457,523)	(359,690)
Interest expense	444,174	345,856
Receivables from BMW Group companies	(1,696,009)	(597,137)
Receivables and other assets	(98,553)	(67,535)
Derivatives	68,238	(603)
Other liabilities	124,138	3,926
Interest received	398,541	379,478
Interest paid	(470,165)	(365,298)
Proceeds from the issuance of Debt securities	2,843,775	1,951,935
Repayment Debt securities	(4,245,922)	(3,073,217)
Repayment Loans due to banks	(700,579)	(533,266)
Proceeds from Liabilities due to BMW Group companies	32,544,224	9,213,324
Repayment Liabilities to BMW Group companies	(28,767,243)	(6,791,644)
Net increase/(decrease) in cash and cash equivalents	7,533	132,132
Cash and cash equivalents at January 1	6,236	6,251

The notes from page 13 to 30 form an integral part to the financial statements.

in euro thousand	Issued Capital	Share premium reserve	Hedging reserve	Retained earnings	Undis-tributed result
Net income/(loss)	–	–	–	–	60,918
Other comprehensive income/(loss) for the period after tax	–	–	1,505	–	–
Appropriation of results 2020	–	–	–	6,714	(6,714)
Net income/(loss)	–	–	–	–	432,067
Other comprehensive income/(loss) for the period after tax			(5,352)	–	–
Appropriation of results 2021	–	–	–	118,889	(118,889)

The notes from page 13 to 30 form an integral part to the financial statements.

BMW Finance N.V. (the “Company”) was incorporated in the Netherlands and is a wholly owned subsidiary of BMW Holding B.V. who in turn is a wholly owned subsidiary of BMW Intec Beteiligungs GmbH, a wholly owned subsidiary of BMW AG. The statutory seat of the Company is The Hague in the Netherlands. The Company has its registered office and principle place of business in Rijswijk in the Netherlands. The Company was registered in the Commercial Register at 14 June 1983, number 27.106.340. The Company’s purpose is to assist the financing of business activities conducted by companies of the BMW Group and its affiliates and to provide financial services in connection therewith. The core business of the Company comprises mainly financing BMW Group companies that are priced in accordance with the “at arm’s length” principle and to contribute to the liquidity requirements of the BMW Group.

During the half-year the Company employed 16 persons (2021: 16), all of which work in the Netherlands. The Supervisory Board, established in December 2014, exists and currently consists of four members.

The financial statements of BMW Finance N.V. are included in the BMW AG consolidated financial statements prepared according to IFRS as endorsed in the EU. These financial statements are available on BMW Group’s website at www.bmwgroup.com.

The interim financial statements (Interim Report) of 30 June 2022 have been prepared in accordance with the International Accounting Standard (IAS) 34. Interim Financial Reporting has been prepared using, in all material aspects, the same accounting methods as those used for preparation of the Annual Report 2021.

The interim financial statements of 30 June 2022 have not been audited, but reviewed. The June 2022 Interim Report of BMW Finance N.V. is prepared and authorised for issuance by the Board of Directors of the Company on 23 August 2022.

Given the objectives of the Company, the Company is economically interrelated with the ultimate holding company, BMW AG, Germany. In assessing the solvency and general risk profile of the Company, the solvency of the BMW Group as a whole, headed by BMW AG, needs to be considered. The Board of Directors consider it appropriate to adopt the going concern basis of accounting in preparing these financial statements based on a forecast analysis which supports the going concern assumptions.

Functional and presentation currency

The financial half-year contains the period from 1 January to 30 June. The interim financial statements are presented in euro which is the Company’s functional currency. Items included in the interim financial statements are measured using the currency of the primary economic environment in which BMW Finance N.V. operates. All interim financial information presented in euro has been rounded to the nearest thousand, unless otherwise stated in the notes.

Comparison with previous year

The valuation principles and methods of determining the result are the same as those used in the previous year, with the exception of the changes in accounting policies as set out in the relevant sections.

The valuation principles and method of determining the result remained the same as those used in the previous year.

Basis of measurement

The interim financial statements have been prepared on the historical cost basis except for the following material items in the interim financial statement of financial position:

Financial assets and liabilities are measured at their fair value:

- derivative financial instruments, and
- recognised financial assets and liabilities that are part of fair value hedge relationships are measured at fair value in respect of the risk that is hedged.

Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make certain assumptions and judgements and to use estimations that can affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The assumptions used are continuously checked for their validity. Actual amounts could differ from the assumptions and estimations used if business conditions develop differently to the Company expectations.

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in future periods affected. Due to the current financial market conditions, the estimates contained in these interim financial statements concerning the operations, economic performance and financial condition of the Company are subject to known and unknown risks, uncertainties and contingencies, many of which are beyond the control of the management of the Company, which may cause actual results, performance or achievements to differ materially from anticipated results, performance or achievements. Also, the estimates are based on management's estimates of fair values and of future costs, using currently available information. Factors that could cause differences include, but are not limited to:

- risks of economic slowdown, downturn or recession
- risks inherent in changes in market interest rates and quality spreads, especially in an environment of unpredictable financial market conditions
- lending conditions to companies turning to the worse, thereby increasing the cost of borrowing
- changes in funding markets, including commercial paper and term debt
- uncertainties associated with risk management, including credit, prepayment, asset/liability, interest rate and currency risks
- changes in laws or regulations governing our business and operations, and
- changes in competitive factors

For the valuation of financial instruments the most significant assumptions and estimates relate to the interest rates and expected cash flows used in the valuation models in the notes 10 and 11.

The spread of the corona pandemic and the accompanying measures introduced to contain it had no significant impact on the application of accounting policies and reported amounts in the interim financial statements.

For the first half year of 2022 there are no financial reporting standards issued by the IASB and not yet applied that are expected to have any significant impact on the Company's Financial Statements.

[1]

The accounting policies set out below have been applied consistently to all periods presented in these interim financial statements.

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the dates of the individual transactions. At the end of the accounting period the unsettled balances on foreign currency receivables and liabilities are valued at the rates of exchange prevailing at the year-end. Exchange rate differences arising on translation are recognised in the income statement. Quotations of market rates are obtained from Reuters Ltd.. Real time rates are frozen on daily basis.

The financial result comprises the Interest margin, Other financial income and expenses, Impairment losses on financial receivables and Result from financial transactions.

The Interest margin is the difference between Interest income and Interest expenses. The Interest income comprises interest income on funds invested as well as an interest remuneration between the Company and BMW AG. The latter is established in order to ensure that the Company earns an “at arm’s length” net interest result for its financing activity based on its business model and risk profile as a strategic liquidity reserve provider to BMW AG and its focus on the financing business of BMW Group. Interest expenses include interest expense on borrowings. Interest income and expense is recognised as it accrues in profit or loss, using the effective interest method.

Other financial income and expenses cover the exchange rate differences of the assets and liabilities in foreign currency. Foreign currency gains and losses are reported on a net basis.

A model is used for determining the impairment losses on financial receivables which is based on expected credit losses and is comprised in the Impairment loss on financial receivables. More information on the model itself can be found under the paragraph “Impairment”.

The Result from financial transactions include changes in the fair value of financial assets at fair value through profit or loss and gains and losses on hedging instruments that are recognised in profit or loss.

Income tax comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends (i.e. withholding taxes).

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset and liability is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS are calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. There is no program which dilute the number of shares outstanding.

Categories of financial assets

The categories of financial assets that are held by the Company are:

- at amortised cost, and
- financial assets at fair value through profit and loss

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value for ‘financial assets at fair value through profit or loss’ are recognised in profit or loss within Result from financial transactions.

Interest income from financial assets at fair value through profit or loss and interest on loans and receivables are included in the Interest income and expense (note 2).

Determination of fair value

A number of the Company’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes. For the methods used see note 10. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Non-derivative financial assets

The Company initially recognises financial assets and deposits at fair value on the date that they are originated. The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets at amortized cost

Financial assets are classified as “at amortised cost” if the following two conditions are both met:

1) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
2) the contractual terms of the financial asset generate cash flows that are solely payments of principal and interest on the principal amount outstanding.

Assets at amortised costs comprise receivables from BMW group companies, interest receivables and other receivables, and cash and cash equivalents. The fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest and relevant credit spreads at the reporting date.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Non-derivative financial liabilities

The Company initially recognises debt securities issued on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company has the following non-derivative financial liabilities: debt securities, loans due to banks, loans due to BMW Group companies, trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

The determination of the fair value of the non-derivative financial instruments which are allocated to level 1 are based on quoted prices in an active market. The fair value of non-derivative financial instruments classified at level 2 are determined using a measurement model, which takes the Group’s own default risk and that of counterparties into account in the form of credit default swap (CDS) contracts which have matching terms and which can be observed on the market.

Derivative financial instruments are used within the Company for hedging purposes. The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. All derivative financial instruments are measured at fair value. Fair values are determined on the basis of valuation models (discounted cash flow models). Observable market price, tenor and currency basis spreads are taken into account in the measurement of derivative financial instruments. Furthermore, the Company's own credit risk and that of counterparties is taken into account on the basis of credit default swap values. Interest rate and currency swaps are valued by using discounted cash flow models. The changes in the fair values of these contracts are reported in the income statement (in Result from financial transactions).

The Company applies the option to recognise credit risks arising from the fair values of a group of derivative financial assets and liabilities on the basis of their total net amount. Portfolio-based valuation adjustments (credit valuation adjustments and debit valuation adjustments) to the individual derivative financial assets and financial liabilities are allocated using the relative fair value approach (net method).

Forward foreign exchange contracts are valued by using discounted cash flow models. Changes in fair value are calculated by comparing this with the original amount calculated by using the contract forward rate prevailing at the beginning of the contract.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

When the Company holds derivative financial instruments due to risk management policies, but no hedge accounting can be applied in line with IFRS 9, then all changes in its fair value are recognised immediately in profit or loss.

Fair value hedges

On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

Where fair value hedge accounting is applied, changes in fair value are recognised in the income statement (in Result from financial transactions) or in other comprehensive income as a component of the Cost of hedging reserve. Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognised in profit or loss. The hedged item also is stated at fair value in respect of the risk being hedged; the gain or loss attributable to the hedged risk is recognised in profit or loss with an adjustment to the carrying amount of the hedged item. Hedges are mainly used to hedge interest rate risks and foreign currency risks relating to debt securities and loans due to banks. Cross currency basis spreads are not designated as part of the hedging relationship in the case of interest rate hedges accounted for as fair value hedges. Accordingly, changes in the market value of such instruments are recorded as costs of hedging within the Cost of hedging reserve. Amounts recorded in equity are reclassified to the income statement over the term of the hedging relationship.

The Company discontinues hedge accounting prospectively when the hedge no longer meets the criteria for hedge accounting. Any hedging adjustment previously made to a hedged financial instrument, for which the effective interest method is used, is amortised to profit or loss by adjusting the effective interest rate of the hedged item from the date on which amortisation begins over the remaining period of the hedge relationship before discontinuing. If the hedged item is derecognised, then the adjustment is recognised immediately in profit or loss when the item is derecognised.

Financial assets

The Company applies the approach described in IFRS 9 to determine impairment of financial assets. IFRS 9 requires the implementation of an 'expected credit loss' (ECL) model, which aims to be forward looking and requires to recognise an impairment loss for all financial assets as an expected expense. In accordance with this model, valuation allowances for expected credit losses on financial assets classified at amortised cost are recognised in two stages. Impairment allowances on financial assets are measured at initial recognition based on the expected

12-months credit loss. If, at subsequent balance sheet dates, the credit loss risk has increased significantly since the date of initial recognition, the impairment allowance will instead be measured based on the lifetime expected credit losses. The calculations of impairment allowances on receivables from affiliates are primarily based on information which is available in the market (e.g. ratings and probabilities of default) as well as on internal and external information on recovery rates. The Company generally assumes creditworthiness is impaired if a receivable is more than 90 days overdue. Credit-impaired assets are identified as such on the basis of this definition of default. In the case of credit-impaired assets which had not been credit-impaired at the time they were acquired or originated, an impairment allowance is recognised at an amount equal to lifetime expected credit losses (Stage 3). There were no significant changes in the assumptions or methodology applied in the assessment of expected credit losses, compared with the prior year.

Ordinary shares are classified as equity. There is no preference share capital or compound financial instruments issued by the Company.

The cash flow statement shows how the cash and cash equivalents of the Company have changed in the course of the year as a result of cash inflows and cash outflows. In accordance with IAS 7 (Statement of Cash Flows), cash flows are classified into cash flows from operating, investing and financing activities.

Cash and cash equivalents included in the cash flow statement comprise cash deposits and cash at bank, to the extent that they are available within three months from the end of the reporting period and are subject to an insignificant risk of changes in value.

The cash flows from investing and financing activities are based on actual payments and receipts. While the cash flow from operating activities is derived indirectly from the net profit for the year. Under this method, changes in assets and liabilities relating to operating activities are adjusted for currency translation effects. The changes in balance sheet positions shown in the cash flow statement do not therefore agree directly with the amounts shown in the Company balance sheets.

The Company's purpose is to assist the financing of the activities conducted by companies of the BMW Group. This assistance is considered to be an operating activity for the Company. Movements related to debt securities, loans due to banks and liabilities to BMW Group companies are considered to be operating activities. The cash flow from operating activities is computed using the indirect method, starting from the net income of the Company. Under this method, changes in assets and liabilities relating to operating activities are adjusted for currency translation effects.

Under IFRS 8 the Company is required to disclose segmental information of its performance. Only one operating income could be identified. The Company derives its revenue interest income by financing receivables of BMW Group companies and trading derivatives to hedge the market risks of the Company. Furthermore, the interest revenue is derived by contributing to the liquidity requirements of the BMW Group. The interest revenue streams are related to the business model of the Company.

[2]
Total interest income and expense for financial assets and liabilities comprise the following:

in euro thousand	1 January to 30 June 2022	1 January to 30 June 2021
Interest income on financial assets at amortised cost	328,056	215,783
Interest income on financial assets included in a fair value hedge relationship	5,875	138,501
Interest income on derivatives at fair value not included in a hedge relationship	123,592	5,406
Interest expense on financial liabilities at amortised cost	(116,512)	(89,285)
Interest expense on financial liabilities included in a fair value hedge relationship	(183,870)	(153,184)
Interest expense on derivatives at fair value not included in a hedge relationship	(143,792)	(103,387)

Interest income and expense (paid and accrued interest) are recognised in the income statement using the effective interest method. Assets and liabilities at fair value stem from financial derivative instruments. Non-derivative financial instruments are measured at amortised cost. The carrying amount is adjusted for the changes in the value of the hedged risks when the instrument is included in a fair value hedge relationship. Fair value movements are not presented under interest income and expense, but under Result from financial transactions (see note 5).

Total interest income and expense split into BMW Group companies and third parties:

in euro thousand	1 January to 30 June 2022	1 January to 30 June 2021
Interest Income BMW Group companies	287,481	170,483
Interest income third parties	132,991	147,457
Interest related income	37,051	41,750
Interest expense BMW Group companies	(30,602)	(32,044)
Interest expense third parties	(413,572)	(313,812)

The interest income third parties euro 132,991 thousand (30.06.2021: euro 147,457 thousand) is mainly earned over the derivatives traded with financial institutions to hedge the market risks of the Company. The interest expense third parties euro 413,572 thousand (30.06.2021: euro 313,812 thousand) comprises the interest expense due to transactions in Debt Securities, Loans due to banks and derivatives with financial institutions.

An interest remuneration between the Company and BMW AG is established in order to ensure that the Company earns an "at arm's length" net interest result for its financing activity based on its function and risk profile as a strategic liquidity reserve provider to BMW AG and its focus on the financing business of BMW Group. The Company received a liquidity fee from BMW AG of euro 37.1 million (30.06.2021: euro 41.8 million) which is presented as "interest related income" in the income statement. In addition, BMW AG was paid a guarantee fee of euro 20 million (30.06.2021: euro 20.8 million), as the latter unconditionally and irrevocably guarantees the Company's issuances on the capital markets.

[3]

The item comprises a profit of euro 877 thousand (30.06.2021: profit of euro 1,292 thousand) due to exchange rate differences.

[4]

The Company recognised a provision for expected credit losses according to IFRS 9 in respect of Receivables from BMW Group companies measured at amortised cost. This resulted in an impairment expense of euro 193,6 thousand (30.06.2021: impairment expense of euro 84 thousand).

In the first half year of 2022, the Company impaired loans with Russian group companies for an amount of euro 70.8 million (30.06.2021: nil). However, the Company received a guarantee payment from BMW AG for the impaired Russian loans based on the guarantee agreement with BMW AG. BMW AG grants the Company a guarantee on financial receivables such that the maximum loss on the receivables of Company does not exceed EUR 2 million, excluding any accrued interest of these transactions. This resulted in a received guarantee payment of euro 70.8 million (30.06.2021: nil). Therefore, the impairment expense related to the Russian loans resulted to euro 3.4 thousand (30.06.2021: nil). Developments in this area will be reviewed regularly by the Company in subsequent quarters.

The total impairment loss on financial receivables amounts to euro 197 thousand (30.06.2021: impairment expense of euro 84 thousand).

[5]

in euro thousand	1 January to 30 June 2022	1 January to 30 June 2021
Ineffective portion of financial instruments included in a hedge relationship	5,912	3,555
Revaluation of derivatives not included in a hedge relationship	572,095	63,684

The result from financial transactions of a profit of euro 578.0 million (30.06.2021: profit of euro 67.2 million) refers to the fair value measurement of financial instruments. The latter was mainly impacted by fair value gains on derivatives, which in turn were caused by a significant increase in the 2-year euro swap curve as well as gains of FX hedges of deposits of Russian rubles.

The revaluation of derivatives not included in a hedge relationship is mainly related to interest rates swaps to hedge the portfolio of receivables with a fixed rate from BMW Group companies and a significant movement in the RUB curve.

[6]

Income taxes comprise the following:

in euro thousand	1 January to 30 June 2022	1 January to 30 June 2021
Current tax expense	(150,110)	(20,306)
Withholding taxes	(8,845)	–

Reconciliation of the effective tax rate:

in euro thousand	1 January to 30 June 2022	1 January to 30 June 2021
Income before tax	591,012	81,224
Income tax benefit using the domestic corporate tax rate (25,8%)	(152,484)	(20,306)
Tax benefit arising from tax free income	2,282	–
Other differences	92	–
Withholding taxes	(8,845)	–

The 2022 Dutch corporation tax applies at 25.8% (2021: 25%).

BMW Finance N.V., a member of the fiscal unity headed by BMW Holding B.V., is jointly and severally liable for the payment of any tax liability of the fiscal unity.

The following companies are part of the fiscal unity per 30 June 2022:
- BMW Holding B.V. (head of the fiscal unity)
- BMW Finance N.V.
- BMW Nederland B.V.
- BMW Financial Services B.V.
- BMW China Capital B.V.

[7]

in euro thousand	30.6.2022	31.12.2021
Non-current receivables from BMW Group companies	20,412,056	18,914,307
Current receivables from BMW Group companies	22,062,141	21,695,068

The Company recognised an accumulated impairment loss on Receivables from BMW Group companies of euro 4.1 million in the first half of 2022 (31.12.2021: euro 4.0 million) in accordance with IFRS 9. No significant changes to estimation techniques or assumptions were made during the reporting period.

From the total receivables from BMW Group Companies 68% has a fixed interest rate per 30 June 2022 (31.12.2021: 63%). The weighted average maturity period and the weighted average effective interest rate of the receivables from BMW Group companies during the first half of the financial year 2022 are:

in euro thousand	Outstanding	Weighted average maturity period (in years)	Weighted average effective interest rates (in %)
Receivables from parent (BMW Holding B.V.)	–	–	–
Receivables from affiliated companies	42,400,646	1.16	1.52
Inhouse Bank BMW AG	5,041	Daily	ESTR* + spread
Trade receivables from parent (BMW Holding B.V.)	161	–	–
Trade receivables from BMW Group companies	68,349	–	–

* ESTR = Euro Short Term Rate (per 30-06-2022: 0.590% negative).

The following table shows the maturity structure of the receivables from BMW Group companies:

in euro thousand	Maturity within one year	Maturity between one and five years	Maturity later than five years
30.06.2022	22,062,141	20,394,979	17,077
31.12.2021	21,695,068	18,806,489	107,818

The Company has not and has not been asked to grant any payment holidays on their loans to BMW Group companies.

[8]

The deferred tax asset of euro 1,159 thousand (31.12.2021: deferred tax liability of euro 701 thousand) is relating to the cost of hedging of derivative financial instruments included in a fair value hedge relationship. The deferred tax asset is calculated with a tax rate of 25.8% (2021: tax rate of 25%).

[9]

Debt securities include both hedged and unhedged debt securities, as well as commercial paper.

in euro thousand	30.6.2022	31.12.2021
Debt securities part of a fair value hedge relationship	24,603,276	28,251,995
Debt securities at amortised cost	4,277,010	2,759,909
Commercial paper	–	300,126

The Bonds under the EMTN Program and other securities issued by the Company comprise per 30 June 2022:

Interest	Currency	Issue volume (in millions)	Weighted average maturity period (in years)	Weighted average effective interest rate (in %)
Variable	EUR	5,000,000	3.0	0.1
Variable	NOK	1,730,000	3.0	2.8
Variable	SEK	1,500,000	4.0	1.5
Variable	USD	500,000	3.0	2.2
Fixed	AUD	273,000	10.0	3.2
Fixed	CNH	500,000	3.0	2.8
Panda Bond	CNY	16,000,000	3.0	3.0
Fixed	EUR	23,400,000	6.8	0.8
Fixed	GBP	600,000	6.0	0.9
Fixed	HKD	1,224,000	6.6	2.9
Fixed	JPY	13,400,000	5.6	0.6
Fixed	NOK	750,000	4.0	2.3
Fixed	USD	1,750,000	5.6	2.5

The Bonds under the EMTN Program and other securities issued by the Company during the financial year 2021 comprise:

Interest	Currency	Issue volume (in millions)	Weighted average maturity period (in years)	Weighted average effective interest rate (in %)
Variable	EUR	2,000,000	2.2	0.0
Variable	NOK	1,730,000	3.0	2.3
Variable	SEK	1,500,000	4.0	0.5
Variable	USD	500,000	3.0	1.0
Fixed	AUD	273,000	10.0	3.2
Fixed	CNH	500,000	3.0	2.8
Panda Bond	CNY	16,500,000	3.0	3.0
Fixed	EUR	22,900,000	6.9	0.8
Fixed	GBP	600,000	6.0	0.9
Fixed	HKD	1,759,000	6.1	2.7
Fixed	JPY	13,400,000	5.6	0.6
Fixed	NOK	750,000	4.0	2.3
Fixed	USD	1,750,000	5.6	2.5

The Euro Medium Term Note ("EMTN") Program of euro 50.0 billion has been used in several currencies by the Company. In the first half year of 2022 the Company issued 2 notes (31.12.2021: 2 notes) with an equivalent nominal amount of euro 2.0 billion (31.12.2021: euro 1.5 billion). Further issuers are BMW AG, BMW US Capital LLC, BMW International Investment B.V. and BMW Japan Finance Corp. Furthermore the Company participates in the euro 5.0 billion Multi-Currency Commercial Paper Program established by BMW AG, BMW Finance N.V. and BMW International Investment B.V. The Multi-Currency Commercial Paper Program support flexible and broad access to capital markets. Since May 2006, the Company acts as an issuer under the euro 2.0 billion French Commercial Paper (Billets de Trésorerie) Program established by the Company. Debt issuances under these programs have unconditional and irrevocable guarantees from BMW AG.

In the first half year of 2022, the Company issued two public placed Chinese bonds, the so-called Panda Bonds, for an amount of CNY 4.0 billion (31.12.2021: Chinese renminbi 3.5 billion) and redeemed two "Panda Bonds" with a nominal amount of Chinese renminbi 4.5 billion (31.12.2021: renminbi 5.0 billion).

By 30 June 2022, no new 144a bonds were issued (2021: nil). The possibility to also issue these type of debt securities gives the Company more flexibility in accessing the world's largest capital markets as an additional funding source.

The outstanding balances with respect to the commercial paper programs at year-end are fully related to the euro 5.0 billion Multi-Currency Commercial Paper Program. The average maturity and interest rates are presented in the table below.

Euro 5.0 billion Multi-Currency Commercial Paper Program outstanding balance:

in euro thousand	Outstanding		Weighted average maturity period (in years)		Weighted average effective interest rates (in %)	
	30.6.2022	30.12. 2021	30.6.2022	30.12. 2021	30.6.2022	30.12. 2021

[10]

Derivative financial instruments are measured at their fair value. The fair values of derivative financial instruments are determined using measurement models, as a consequence of which there is a risk that the amounts calculated could differ from realisable market prices on disposal. Observable financial market prices are taken into account in the measurement of derivative financial instruments. The valuation takes into account the Company's own default risk and that of counterparties in the form of credit default swap (CDS) spreads which have appropriate terms and which can be observed on the market.

Financial instruments measured at fair value are allocated to different levels:
- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 inputs are unobservable inputs for the asset or liability.

At 30 June 2022 the financial assets and liabilities measured at fair value according to IFRS 9 are classified as follows in the measurement levels in accordance with IFRS 13:

in euro thousand	Level hierarchy in accordance with IFRS 13 Level 1	Level 2	Level 3
Derivative instruments (assets)			
Fair value hedges	–	221,295	–
Other derivative instruments	–	874,891	–
Derivative instruments (liabilities)			
Fair value hedges	–	1,192,269	–
Other derivative instruments	–	503,474	–

At 31 December 2021 the financial assets and liabilities measured at fair value according to IFRS 9 are classified as follows in the measurement levels in accordance with IFRS 13:

in euro thousand	Level hierarchy in accordance with IFRS 13 Level 1	Level 2	Level 3
Derivative instruments (assets)			
Fair value hedges	–	488,621	–
Other derivative instruments	–	383,695	–
Derivative instruments (liabilities)			
Fair value hedges	–	164,092	–
Other derivative instruments	–	498,002	–

In the above table, the other derivative instruments are derivatives not included in a hedge relationship and are related to interest rate swaps and foreign currency swaps to hedge the portfolio of fixed rated receivables from BMW Group companies.

There were no reclassifications within the level hierarchy either in the first half of the financial year 2022 or in the financial year 2021.

Where the fair value is required for a financial instrument for disclosure purposes, the discounted cash flow method was used, taking account of the BMW Group's credit risk. These fair values are allocated as Level 2. Financial instruments recognised at fair value for which no market prices are available, are categorised as Level 3. Level 3 financial assets relate mainly to marketable securities of the Company. The valuation technique to determine the fair value of these marketable securities is based on the expected amortisation schedule of the notes and the credit spreads as observed in the financial market. These parameters have not changed significantly since the first date of adoption.

The following table shows the fair values and carrying amounts of financial assets and liabilities that are measured at amortised cost and where carrying amounts differ from their fair value. For some balance sheet items, fair value corresponds to the carrying amount due to their short maturity.

30 June 2022:

in euro million	Note	Fair value	Carrying value	Difference
BMW Group receivables (level 2)	[7]	41,853,335	42,474,197	(620,862)
BMW Group liabilities (level 2)		9,687,054	10,222,714	(535,660)
Non-current debt securities	[9]	20,195,614	20,261,450	(65,836)
whereof level 1		17,779,344	–	–
whereof level 2		2,416,270	–	–
Loans due to banks (level 2)		2,012,931	1,857,419	155,512

BMW Group receivables are valued at amortised cost. The underlying changes to the fair value of these assets are therefore not recognised in the balance sheet. The Company does not apply hedge accounting to loans in the intercompany receivables with a fixed interest rate. The change of fair value of the BMW Group receivables are valued according to level 2 methodologies.

For the current debt securities the fair value approximates the carrying value. The change of fair value of the loans due to banks are valued according to level 2 methodologies.

31 December 2021:

in euro million	Note	Fair value	Carrying value	Difference
BMW Group receivables (level 2)	[7]	40,727,790	40,609,375	118,415
BMW Group liabilities (level 2)		6,248,100	6,286,773	(38,673)
Non-current debt securities	[9]	22,675,595	22,338,418	337,177
whereof level 1		20,207,837	–	–
whereof level 2		2,467,758	–	–
Loans due to banks (level 2)		2,868,737	2,723,515	145,222

[11]

The exposure of the Company can be broken down into two main categories: financial and non-financial risks.

Risk Management Framework

The formal procedures and policies operated by the Company to cover banking, foreign exchange and other treasury matters are consistent with objectives and policies for financial risk management within the BMW Group. The Company's policy is not to take positions in derivative financial instruments with the aim of profit realisation. The Company's risk management policy strives to achieve interest rate and foreign currency exposure neutrality.

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the BMW Groups' exposure to each of the above risks, the BMW Groups' objectives, policies and processes for measuring and managing risk, and the BMW Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

Credit Risk

The Company is exposed to counterparty credit risks if an internal- or external counterparty is unable or only partially able to meet their contractual obligations. As a general rule, the Company assumes that a receivable is in default if it is more than 90 days overdue or if there are objective indications of insolvency.

The Company applies the general approach described in IFRS 9 to determine impairment of financial assets. Under the general approach, loss allowances are measured on initial recognition on the basis of the expected 12-month credit loss (stage 1). If the credit loss risk at the end of the reporting period has increased significantly since initial recognition, the impairment allowance is measured on the basis of lifetime expected credit losses (stage 2 – general approach). Further disclosures relating to the model used are provided in the explanatory note 1 in the paragraph “Impairment of financial assets”. Since no significant increase in credit risk has been identified, there was no reason for any reclassification from stage 1 (impairment allowance based on the twelve-month expected credit losses) to stage 2 (impairment allowance based on the lifetime expected credit losses). The measurement of the change in default risk is based on a comparison of the default risk at the date of initial recognition and at the end of the reporting period. The default risk at the end of each reporting period is determined on the basis of credit checks, current key economic indicators and any overdue payments. Loss allowances on trade receivables are determined primarily on the basis of information relating to overdue amounts. The loss allowance on these assets is calculated using the input factors available on the market (i.e. Corporate Default Studies), such as ratings and default probabilities.

The amount recognised in the balance sheet of the Company for financial assets is the maximum credit risk in the case that counterparties are unable to fulfil their contractual obligations. In the case of derivative financial instruments, the Company is also exposed to credit risk, which results from the non-performance of contractual agreement on the part of the counterparty. This credit risk, for Treasury activities is mitigated by entering into such contracts only with parties of first-class credit standing. Furthermore, the Company participates in a BMW Group wide limit system that continually assesses and limits the credit exposure to any single external counterparty.

BMW AG grants the Company a guarantee on financial receivables such that the maximum loss on the receivables of the Company does not exceed EUR 2 million, excluding any accrued interest of these transactions. As a result, credit risk of intergroup financial receivables is substantially mitigated.

Furthermore, due to the debt monitoring collection system implemented by the Company no credit defaults were encountered in the current and previous financial year except for receivables from Russian group companies. However, as described above, the maximum credit loss does not exceed euro 2 million (pro-rata). The credit loss incurred on the receivables from Russian group companies amounted to euro 3,4 thousand (note 4).

Besides the receivables from Russian group companies, the Company had neither write-downs nor reversals of write-downs during the first half year of 2022. The Company has no loans or receivables which are overdue. There were no past dues amongst loans and receivables and there were no collaterals received.

Liquidity risk

Liquidity risk is the risk that the Company cannot meet its financial liabilities when they become due, at reasonable costs and in a timely manner. As a result, the Company’s borrowing capacity may be influenced, and its financing costs may fluctuate. The cash and short-term deposits as well as the Multi Currency Revolving Credit Facility of the BMW Group mitigate the liquidity risk for the Company. The diversification of debt instruments for debt financing reflects the successful financial strategy of the BMW Group. BMW AG unconditionally and irrevocably guarantees all debt securities and loans due to banks.

The Company has various possibilities for liquidity facilities. A concentration of liquidity risk has not been identified.

Market risk

The Company is exposed to market risk, which comprises interest rate risk and currency risk.

Interest rate risk

Interest rate risk refers to potential changes of value in financial assets, liabilities or derivatives in response to fluctuations in interest rates. The Company holds a substantial volume of interest rate sensitive financial assets, liabilities and derivatives for operational, financial and investment activities. Changes in interest rates can have adverse effects on the financial position and operating result of the

Company. In order to mitigate the impact of interest rate risk the Company aims in general to change fixed to floating interest rates. Furthermore, the Company continually assesses its exposure to this risk by using gap analysis, value at risk analysis, and duration analysis. Interest rate risk is managed through natural hedges and hedged through the use of derivative financial instruments, such as interest rate swaps. To manage the maturity gaps appropriate interest rate derivatives are used. The interest rate contracts used for hedging purposes comprise mainly swaps, which, if hedge accounting is applied, are accounted as fair value hedges. The economic relationship between the hedged item and the hedging instrument is based on the fact that the main parameters of the hedged item and the related hedging instrument, such as start date, term and currency, are the same.

The Company applies a value at risk-approach for internal reporting purposes and to control the frequency, extent, and size of possible losses in such a way as to provide the minimum surprise. The approach to value at risk is based on a modern historical simulation, in which the potential future fair value losses of the interest rate portfolios are compared across the BMW Group with probable amounts measured on the basis of a holding period of 250 days and a confidence level of 99.98%. Due to the aggregation of these results, a risk reduction effect due to correlations between the various portfolios is accomplished.

The Company implemented the Financial Strategy of the BMW Group. The objective of interest rate risk neutrality is accomplished when interest rate gaps are managed in manner that the economic value of the portfolio of financial instruments is immunised to a considerable degree against changes in interest rates. The Company monitors its interest rate risk exposure continuously and prepares a monthly report submitted to the BMW Group treasury department. A primary risk measure when judging the interest rate exposure of the Company is the present value of a basis point of the portfolio. This concept indicates the impact on profit and loss, representing the sum of discounted cash flows of the financial instruments, by assuming a parallel shift of the interest rate curve of a basis point.

In view of the plans to reform and replace certain benchmark interest rates, the timing and exact nature of these changes is currently subject to uncertainty. Across the BMW Group, a considerable number of contracts are directly affected by the benchmark interest rates reform. Hedging relationships entered into by the BMW Group are mainly based on USD LIBOR and GBP LIBOR benchmark interest rates, which are designated as hedged risks in fair value hedging relationships. The hedging relationships affected are subject to uncertainty with respect to the identifiability of the designated benchmark interest rates. The transition to the newly created or revised benchmark rates is being managed and monitored as part of a multidisciplinary project. The conversion project will involve making changes to systems, processes, risk and valuation models, as well as dealing with the associated accounting implications. The uncertainty arising from the benchmark interest rate reform is likely to continue to exist up to the end of 2022.

Currency risk

Currency risk or exchange rate risk refers to potential changes of value in financial assets, liabilities or derivatives in response to fluctuations in exchange rates. Changes in exchange rates can have adverse effects on the financial position and operating result of the Company. In order to mitigate the impact of currency risk arising from operational, financial and investment activities, the Company continually assesses its exposure to this risk. Currency risk is managed and hedged through the use of derivative instruments, such as forward contracts and cross currency swaps. The economic relationship between the hedged item and the hedging instrument is based essentially on the fact that they are denominated in the same currency, same amount and have the same maturities. The Company has minor unhedged foreign currency debt positions. These positions are causing the exchange rate result displayed in the profit and loss account as explained in note 3. A concentration of currency risk has not been identified.

Operating and Compliance Risks

Non-financial risks could arise from operating risks. Risks mainly result from the use of IT systems and information technology. The Company uses IT systems to monitor financial positions and daily cash flows and to process payments to internal and external counterparties. System failures can, therefore, lead to delays in payment processes. Further operating risks can arise in connection with the settlement of financial transactions. The management of daily cash flows at the Company depends on the timely receipt of funds from external institutions who act as counterparties to financial transactions, such as bonds, swaps or other derivative financial instruments. To avoid negative impacts of system failures, all key systems are set up in parallel and/or backup facilities or available within the BMW Group.

Business Continuity Management (BCM) aims to minimise the effects of emergencies and crises, and to (initially) ensure the survival of the Company at the level of an emergency operation, thus safeguarding stakeholders' interest and the organisation's reputation and value-creating activities. BCM focusses on:

- analysing threats and the business impact of emergencies and crises
- determining the strategies and solutions to be applied in the event of a crisis, such as business recovery, crisis management and IT disaster recovery planning, so as to enable continuity of business operations
- documenting and periodically assessing these strategies and solutions

Business continuity mitigation controls, such as business continuity plans, crisis management, business relocation plans and IT disaster recovery plans are in place to prepare and deal with incidents and crises threatening the continuity of critical business processes.

Geopolitical risks

Geopolitical conflicts have an impact on business performance of the Company. Unforeseen disruptions in global economic relations can have highly unpredictable effects. The invasion of Ukraine by Russian troops has, among other factors, triggered supply restrictions and a number of Russian banks being removed from the global payment messaging system, SWIFT, which affects payments from Russia. There is a risk of a further escalation of the conflict and therefore of the sanctions imposed by retaliatory measures by Russia. Any additional sanctions relating to the capital market and the import and export of goods and raw materials will have distinct consequences that are also likely to have a negative impact on economies outside of Russia.

The rapid spread of the coronavirus and the actions being taken on a global basis for its containment have severely impacted the financial markets worldwide. This has manifested through significant changes in interest rates, equity markets, and the widening of credit spreads. The Company has continuously monitored the market and economic turbulences that have arisen as a consequence of the virus, as well as any possible impact on the Company's business development. The most significant risks as a consequence of the pandemic which were identified, are related to credit and interest rate changes. To ensure that these risks were continuously and successfully managed, the Company utilized its comprehensive risk management system.

Given the objectives of the Company, the Company is economically interrelated with the ultimate holding company, BMW AG, Germany. In assessing the solvency and general risk profile of the Company, the solvency of the BMW Group as a whole, headed by BMW AG, needs to be considered. All risks of the Coronavirus on the BMW Group's financials have been addressed in their 2022 interim financial statements.

For the Company itself, the effects of the Coronavirus have been limited and no increased financial risks were identified in the first half year of 2022. Therefore, the going concern status of the Company has been safeguarded.

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A comprehensive exchange of internal services between affiliates of a multinational corporation as the BMW Group is common practice. In its responsibility to assist the financing of business activities conducted by companies of the BMW Group and its affiliates, the Company applies transfer prices for financial instruments in conformity with market levels and in accordance with national and international tax requirements (arm's length principle, principle of economic allegiance, separate entity approach, Art 9 OECD-MA Rz 126).

The board of management consists of three directors, two of which receive a compensation from the Company itself. The other director is paid by a BMW Group company outside the scope of the Company. The Company does not have other key management personnel than the board of directors.

In principle, the transfer prices for financial instruments are determined on the basis of three components: the price for BMW Credit Default Swaps, the three months Commercial Paper Spread and a transfer pricing margin.

The price for BMW Credit Default Swaps is applied for maturities >6 months, taken from Bloomberg. For uneven maturities and maturities between Overnight and six months the method of linear inter-/-extrapolation based on the available BMW Credit Default Swaps is used to calculate the appropriate credit risk with regard to market prices. To enhance efficiency and ensure consistency throughout the BMW Group, a transfer pricing sheet is provided monthly by the Middle Office, which is daily filled with actual data to calculate the credit and term spread for every transaction. Finally, a transfer pricing margin is applied to account for the running costs of the Company.

The interest rate result was positively affected by a liquidity fee of BMW AG of euro 37.1 million (30.06.2021: euro 41.8 million) related to the business model. Furthermore, the Company paid a guarantee fee for its outstanding debt securities for an amount of euro 20.4 million (30.06.2021: euro 20.8 million) to the BMW AG. The Company impaired loans with Russian group companies for an amount of euro 70,840 million (30.06.2021: nil). for which the Company received a guarantee fee of euro 70,836 (30.06.2021: nil) from BMW AG based on the guarantee agreement with BMW AG. The receivable Inhouse Bank position that the Company had with the BMW AG amounted to euro 5.041 million (2021: euro 153 million). All outstanding receivables with the ultimate parent Company are disclosed in detail in note 7. With BMW Holding B.V., the Company had interest income of euro 28.6 million (30.06.2021: euro 31.8 million) and interest expenses of euro 2.2 million (30.06.2021: euro 3.5 million).

In the first half year of 2022, there were no investments in associates.

With regards to outstanding derivatives, the Company had an amount of euro 60 million (2021: euro 67 million) outstanding in derivative assets and euro 160 million (2021: euro 74 million) in derivative liabilities with BMW Group companies.

[14]

No subsequent events that would require adjustments or disclosure occurred after balance sheet date 30 June 2022.

The Hague, 23 August 2022

The Board of Management:

The review report on these interim financial statements is set out on the next page.

To: the board of directors of BMW Finance N.V.

Introduction

We have reviewed the accompanying interim financial information for the six-month period ended 30 June 2022 of BMW Finance N.V., 's-Gravenhage, which comprises the balance sheet as at 30 June 2022, the income statement and statement of comprehensive income, the statement of changes in equity, the cash flow statement for the period then ended and the selected explanatory notes. The board of directors is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope

We conducted our review in accordance with Dutch law including standard 2410, Review of Interim Financial Information Performed by the Independent Auditor of the entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information for the six-month period ended 30 June 2022 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union.

Rotterdam, 23 August 2022
PricewaterhouseCoopers Accountants N.V.

R. van der Spek RA