Competition in the automotive industry could lead to pricing and sales pressures

BMW Group faces competition from a number of international companies, as well as local and regional companies in the countries in which it operates. Increased competition and unanticipated actions by competitors or customers in the automotive industry could lead to downward pressure on prices or a decline in BMW Group's market share, which would adversely affect its results and impair its growth potential.

Intense competition exists in particular with regard to prices and product quality, as well as the development and launch periods of newly developed products carrying a higher profit risk due to marketing risks and considerable expenses for market development, product launch and market penetration. Further, new expertise on the part of competitors or new market entrants increases the risk that competitors might outperform BMW Group with respect to technological advances or vehicle development, which could lead to BMW Group potentially losing market share and suffering significant losses in deliveries. Increased pressure on selling prices and margins caused by intense competition in global markets, particularly in Western Europe, the United States and China, also requires constant analysis and adapting to changes in circumstances and conditions. See also "*The automotive market is highly competitive and subject to technological innovations and developments which could affect BMW Group's competitive position*".

BMW Group is dependent on market acceptance of BMW Group's products

Many factors both within and outside of BMW Group's control affect the success of new or existing BMW Group products in the marketplace. BMW Group seeks to offer highly desirable vehicles to overcome intensive price competition and meet market demand; however, BMW Group's new and existing vehicles and products might be perceived to be less desirable than those of BMW Group's competitors, whether in terms of price, quality, design, safety, overall value, fuel efficiency or other attributes. For example, if a new model were to experience quality issues at the time of launch, the vehicle's perceived quality could be affected even after the issues have been corrected, resulting in lower numbers of deliveries, market share, and profitability.

The trend towards an increasing range of body styles, including "cross-over" body styles, based on customer expectations and competitive actions across the automotive industry, requires BMW Group to continually evaluate the position and market share of its individual brands and models to maintain its competitive position. In addition, with increased consumer interconnectedness through the internet and other media, mere rumors or allegations relating to quality, safety, fuel efficiency, corporate social responsibility or other key product attributes can negatively impact BMW Group's reputation or market acceptance of its products, even where such allegations prove to be inaccurate or unfounded.

As a result of the intensity of competition in the automotive industry and the pace of technological development, BMW Group faces constant pressure to develop new products and improve existing products at ever-shorter intervals. If BMW Group misjudges, delays recognition of, or fails to adapt its products and services to trends and changes in customer requirements in individual markets or other changes in demand, its sales volumes could be adversely affected. If BMW Group makes fundamental or repeated misjudgments, it could lose customers, and the reputation of its affected brands could suffer. Such misjudgments may also lead to significantly unprofitable investments and associated costs.

If BMW Group encounters potential delays in bringing new vehicle models and technologies to market or if customers do not accept the new models BMW Group introduces, or if the other risks mentioned herein were to materialize, it could have a material adverse effect on BMW Group's business, net assets, financial condition or results of operations.

BMW Group's success is dependent on its ability to maintain and develop its brand image

In the highly competitive automotive industry, BMW Group is dependent on maintaining and developing the brand image for its various brands. In order to maintain and develop a brand image, BMW Group must earn customers' confidence by providing safe, high-quality products that meet customer demand and appeal to customers' preferences. Moreover, as BMW Group is dependent on suppliers for several significant production components, perceptions of BMW Group's quality can also be affected by the performance and quality of third-party supply components or broader perceptions of the automotive industry generally. If BMW Group is unable to effectively maintain and develop the brand image of its BMW, MINI and Rolls-Royce brands, for example as a result of an inability to provide safe, high-quality

production volumes in non-euro-region countries (natural hedging) and increasing purchase volumes denominated in foreign currencies. Currency exchange risks are managed in the short to medium term and, for operational purposes, by means of hedging. Nevertheless, changes in currency exchange rates cannot always be predicted or hedged, and there can be no assurance that BMW Group's strategies will be successful in mitigating currency exchange risks.

The success of BMW Group's financial services business depends on vehicles' residual values developments

BMW Group leases and finances a substantial amount of vehicles. For the vehicles it leases, BMW Group projects expected residual values and return volumes. Actual proceeds BMW Group realizes upon the sale of returned leased vehicles at lease termination may be lower than the amount projected, which would reduce the profitability of the lease transaction.

The residual value risk could be influenced by many different external factors. A decline in the residual value of used vehicles could be caused by initiatives to promote sales of new vehicles, which was evident during the global financial and economic crisis when incentive programs were offered by certain governments (for example, scrapping premium) and automobile manufacturers. Among other things, BMW Group was required to increase existing loss provisioning for residual value risks in the past. A similar situation could occur in the future, including due to renewed deterioration of the macroeconomic environment.

Changes in economic conditions government policies, exchange rates, marketing programs, changes in customer preferences, the actual or perceived quality, safety or reliability of vehicles or fuel prices could also influence the residual value risk. For instance, driving bans for diesel vehicles could influence the residual value risk of the relevant portfolio. Due to the fact that customers might change their consumption behavior and refrain from buying diesel vehicles, these bans could have a negative impact on the corresponding market prices of such vehicles. The residual value risk could therefore increase and could materially adversely affect BMW Group's business, net assets, financial condition or results of operations.

The development of residual value risks could also be influenced by e-mobility. On the one hand, rapid technical progress in the field of battery technology that increases vehicle ranges could lead to increasing residual value risks in existing electric vehicle portfolios, as customer demand for outdated technologies declines, especially in the first few years. On the other hand, due to substitution effects, sales of electric cars as a result of changing customer behavior could have a negative impact on the residual values of conventional combustion engine vehicles. Such e-mobility developments and the impact on residual value risks are difficult to predict.

In addition, BMW Group could face an increasing residual value risk as a result of any pandemic or epidemic. A further drop in consumer demand could require that new vehicles be sold at a significant discount, which could have a material impact on the residual value of used vehicles. In addition, consumer demand for used vehicles may also decline, which could further impact the residual values of used vehicles. Decreasing residual values and resulting residual value risks could influence both BMW Group (direct residual value risk) and the dealers which are financed by BMW Group (indirect residual value risk). Consequently, BMW Group may have to post direct write-offs on its portfolio or build higher loss allowances, which would have a material adverse effect on earnings.

BMW Group is dependent on securing financing on attractive terms to provide liquidity to develop its business.

BMW Group relies on access to the capital markets to fund its operations and to grow its business. In the normal course of business, BMW Group makes use of bonds, commercial paper and securitized transactions as well as bank credit facilities in various currencies, primarily to finance BMW Group's leasing and sales-financing business. Any negative development in the capital markets, including any deterioration as a result of the bank failures or crises, could increase BMW Group's financing costs or ability to access capital and sources of financing.

More expensive refinancing would also have a negative effect on the competitiveness and profitability of BMW Group's financial services business if it were unable to pass on the higher refinancing costs to its

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