# Information relating to item 10 of the AGM agenda:

## Company Financial Statements and Management Report for BMW Bank GmbH as of 31 December 2017.

**Certified Translation from the German Language**

# 2017 Annual Financial Statements of BMW Bank GmbH

The following is a certified translation from the German language of the 2017 annual financial statements of BMW Bank, Munich.

The constituent elements of the certified translation are as follows:

1. This cover sheet (1 page)
2. Title page (1 page)
3. Balance sheet as of 31 December 2017 (2 pages)
4. Income statement for the period from 1 January to 31 December 2017 (1 page)
5. Notes to the financial statements for fiscal year 2017 (12 pages)
6. Statement of fixed assets for fiscal year 2017 (appendix to the Notes - 1 page)
7. Country-specific reporting 2017 (2 pages)
8. Management report 2017 (26 pages)
9. Gender equality report 2017 (2 pages)
10. Auditor's report 2017 (8 pages)
11. Translation certification page (1 page)
12. German document from which the translation was prepared (German text of nos. 2 - 10 above - 58 pages, 3 of which are blank)

The German document from which the translation was prepared was provided to me as a PDF file. A printout of this file is attached (no. 12 in the above list).

Except for document no. 10 (auditor's report), the German file contains no page numbering. For organizational purposes, I added a header containing page numbering to my translation. This numbering is specific to each document (begins again at "1" for each document, i.e. documents 2 to 10 in the above list).

The pagination of the English translation documents approximates that of the corresponding parts of the German document.

William Bader
allg. erm. Übersetzer der engl. Sprache im Lande Hessen

William Bader

Kleine Schmieh 58
Oberursel, Germany, 28 June 2017

KPMG

# Annual Financial Statements as of December 31, 2017 and Management Report

## AUDITOR'S REPORT

BMW Bank GmbH,
Munich

Annual financial statements as well as basic economic and regulatory information

KPMG AG Wirtschaftsprüfungsgesellschaft

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# Balance Sheet as of December 31, 2017 for BMW Bank GmbH, Munich

## Assets

| | 12/31/2017<br>EUR thousand | 12/31/2016<br>EUR thousand |
|---|---|---|
| **1. Cash reserve** | | |
| a) Cash on hand | 5 | 6 |
| b) Deposits with central banks | 44,167 | 210,013 |
| Thereof: Deutsche Bundesbank<br>EUR 44,137 thousand; previous year EUR 209,983 thousand | **44,172** | **210,019** |
| **2. Receivables from credit institutions** | | |
| a) Due on demand | 329,676 | 201,146 |
| b) Other receivables | 2,260,032 | 1,836,305 |
| | **2,589,708** | **2,037,451** |
| **3. Receivables from customers** | **13,509,390** | **13,314,457** |
| Thereof: secured by mortgage EUR 58,399 thousand;<br>previous year EUR 69,069 thousand | | |
| **4. Bonds and other fixed-income securities** | | |
| Bonds and debt securities | | |
| a) From public issuers | 510,834 | 496,905 |
| Thereof: eligible as collateral with Deutsche Bundesbank<br>EUR 505,218 thousand; previous year EUR 489,990 thousand | | |
| b) From other issuers | 431,534 | 280,888 |
| Thereof: eligible as collateral with Deutsche Bundesbank<br>EUR 24,751 thousand; previous year EUR 24,851 thousand | | |
| | **942,368** | **777,792** |
| **5. Shares in affiliated companies** | **257,426** | **257,426** |
| Thereof: in credit institutions EUR 257,426 thousand;<br>previous year EUR 257,426 thousand | | |
| **6. Leased assets** | **8,795,320** | **8,272,122** |
| **7. Property, plant, and equipment** | **2,461** | **1,557** |
| **8. Other assets** | **426,250** | **467,241** |
| **9. Prepaid expenses** | **25,992** | **24,200** |
| **10. Surplus of plan assets over pension liabilities** | **18,878** | **22,632** |
| **Total assets** | **26,611,965** | **25,384,897** |

Munich, March 6, 2018

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|---|---|---|---|
| Dr. Hans-Jürgen Cohrs | Gerald Holzmann | Dr.-Ing. Markus Walch | Thomas Weber |

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# Balance Sheet as of December 31, 2017 for BMW Bank GmbH, Munich

## Equity and Liabilities

| | 12/31/2017 EUR thousand | 12/31/2016 EUR thousand |
|---|---|---|
| **1. Liabilities to credit institutions** | | |
| a) Due on demand | 31,944 | 82,439 |
| b) With fixed term or withdrawal notice | 50,045 | 5,097 |
| | **81,989** | **87,536** |
| **2. Liabilities to customers** | | |
| a) Savings deposits | | |
| With fixed withdrawal notice of three months | 3,644,005 | 3,329,919 |
| b) Other liabilities | | |
| ba) Due on demand | 3,660,818 | 3,188,601 |
| bb) With fixed term or withdrawal notice | 8,464,026 | 7,949,301 |
| | **15,768,849** | **14,467,821** |
| **3. Other liabilities** | **6,902,546** | **6,398,337** |
| **4. Deferred income** | **532,272** | **1,187,067** |
| **5. Provisions** | | |
| a) Provisions for pensions and similar obligations | 1,116 | 1,082 |
| b) Tax provisions | 38,135 | 22,667 |
| c) Other provisions | 219,314 | 202,643 |
| | **258,565** | **226,392** |
| **6. Fund for general banking risks** | **1,080,000** | **1,030,000** |
| **7. Equity** | | |
| a) Subscribed capital | 12,300 | 12,300 |
| b) Capital reserve | 1,972,211 | 1,972,211 |
| c) Retained earnings | 3,233 | 3,233 |
| | **1,987,744** | **1,987,744** |
| **Total equity and liabilities** | **26,611,965** | **25,384,897** |

| | | |
|---|---|---|
| 1. Contingent liabilities, Liabilities from warranties and guarantee agreements | 35,769 | 793 |
| 2. Other obligations, Committed credit facilities | 146,650 | 164,759 |

Munich, March 6, 2018

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|---|---|---|---|
| Dr. Hans-Jürgen Cohrs | Gerald Holzmann | 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, 2017

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | EUR thousand | EUR thousand | EUR thousand | EUR thousand | EUR thousand | EUR thousand |
| **1. Interest income** | | | | | | |
| a) From lending and money market transactions | 655,599 | | | 642,160 | | |
| b) Negative interest income from lending and money market transactions | -1,037 | | | -958 | | |
| c) From fixed-income securities and debt register securities | 8,849 | 663,411 | | 7,484 | 648,686 | |
| **2. Interest expenses** | | | | | | |
| a) Interest expenses | -210,993 | | | -219,425 | | |
| b) Positive interest expense | 73 | -210,920 | **452,491** | 182 | -219,243 | **429,443** |
| **3. Leasing income** | | 3,983,580 | | | 4,015,620 | |
| **4. Leasing expenses** | | -2,250,637 | **1,732,943** | | -2,289,919 | **1,725,701** |
| **5. Commission income** | | 114,893 | | | 110,087 | |
| **6. Commission expenses** | | -215,799 | **-100,906** | | -199,036 | **-88,949** |
| **7. Other operating income** | | | **263,626** | | | **269,618** |
| **8. General administrative expenses** | | | | | | |
| a) Personnel expenses | | | | | | |
| aa) Wages and salaries | -127,144 | | | -137,039 | | |
| ab) Social security contributions, pensions and other benefits Thereof: for pensions EUR 4,272 thousand; previous year EUR 5,549 thousand | -22,579 | -149,723 | | -25,325 | -162,364 | |
| b) Other administrative expenses | | -171,060 | **-320,783** | | -173,175 | **-335,539** |
| **9. Amortization and depreciation** | | | | | | |
| a) On leased assets | | -1,493,427 | | | -1,444,807 | |
| b) Intangible and tangible assets | | -408 | **-1,493,835** | | -10,424 | **-1,455,231** |
| **10. Other operating expenses** | | | **-134,587** | | | **-117,357** |
| **11. Provisions for general banking risks** | | | **-50,000** | | | **-130,000** |
| **12. Write-downs and impairments for receivables and certain securities as well as additions to loan-loss provisions** | | | **-41,494** | | | **-26,350** |
| **13. Net operating income** | | | **307,455** | | | **271,336** |
| **14. Extraordinary expense** | | | **-485** | | | **0** |
| **15. Income taxes** | | | **-56,354** | | | **-36,034** |
| **16. Other taxes, to the extent not included in item 10** | | | **-1,163** | | | **4,015** |
| **17. Profits transferred under a profit and loss transfer agreement** | | | **-249,453** | | | **-239,317** |
| **18. Net income** | | | **0** | | | **0** |

Munich, March 6, 2018

[Signature] [Signature] [Signature] [Signature]

Dr. Hans-Jürgen Cohrs Gerald Holzmann Dr.-Ing. Markus Walch Thomas Weber

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## BMW Bank GmbH, Munich

## Notes to the Financial Statements for Fiscal Year 2017

### A. Basis of Presentation

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

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

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

### B. Accounting Policies

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

**Cash reserve** and **receivables from credit institutions** are stated at their nominal value.

**Receivables from customers** are stated at their nominal value.

As of December 31, 2017, the election to capitalize future interest not yet due was no longer exercised as this improves the clarity of the accounting presentation and is common practice in the industry.

All identifiable imminent and latent risks have been accounted for by deducting loan loss impairments which are collected on separate offsetting asset-side impairment accounts. They are closed out at the same time as the corresponding impairment-adjusted receivable.

Both specific loan loss impairments and portfolio loan loss impairments are recognized.

The primary factors considered for this purpose are historical experience and current market data, such as delinquencies in the lending business, as well as rating classes and scoring information. The amount of loan loss impairments for credit default risks is calculated primarily using Company-specific and debtor-specific default probabilities default rates for homogeneous sub-portfolios, which were determined based on historical data.

In the customer financing and leasing business, specific loan loss impairments are recognized for all contracts in default. Portfolio-based loan loss impairments are established for homogeneous portfolios both where there is an objective indication of value impairment, e.g. because a receivable is currently overdue or there is a past history of such events, and where losses have already occurred, but have not yet been identified.

For receivables from the dealer and importer financing business, specific loan loss impairments derived from the rating class allocation are recognized for market counterparties that are in default or at imminent risk of default. For all other market counterparties, a portfolio-based loan loss impairment is recognized by a process of portfolio analysis based on homogeneous portfolios or rating classes.

**Bonds and other fixed-income securities** are stated at cost. Their valuation 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 issuing price. Valuation is based on the modified lower-of-cost-or-market principle.

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

**Leased assets** are stated at cost less accumulated scheduled amortization and depreciation. The vehicles capitalized as leased assets are written down to their calculated 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. If the amount realizable on sale of the leased asset is less than its projected residual carrying amount at the end of the lease term, 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 the carrying amount assuming scheduled depreciation, whichever is less. Assumptions must be made concerning the realizable amount, since it represents a significant portion of future cash flow. 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 less than EUR 150 are fully expensed in the year of acquisition. Assets with a value between EUR 150 and EUR 1,000 are grouped into one item, which is released on a straight-line basis over a period of five years.

**Liabilities** are stated at their settlement amount.

**Deferred income** is recognized in particular for leasing down-payments received and sales promotions. Leasing down-payments and sales promotions are released over the term of the lease on a straight-line basis. Because the statement of receivables from customers has been revised, deferred income as of December 31, 2017, no longer includes the interest portion of customer financing, which was capitalized in the preceding year.

**Provisions** take account of the necessary settlement amount of all identifiable risks on the basis of reasonable commercial judgment. Provisions with a term of more than one year have been discounted where this is material.

**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 3.68 % discount rate for pension benefits and a rate of 1.3 % for partial retirement benefits commitments as well as an expected wage and salary increase of 2.94 %. The calculations rely on the mortality tables compiled by Prof. Klaus Heubeck in 2005 (*Richttafeln 2005 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.

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**. This amount is barred from distribution under § 268 (8) HGB.

The amount of the **fund for general banking risks** in accordance with § 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** at the spot rate on the reporting date as calculated on a monthly basis in accordance with § 256a HGB. The cost and realization principle is not applied to items with a residual maturity of less than one year.

BMW Bank GmbH hedges part of the interest rate risk from its underlying transactions on a portfolio basis. Payer and receiver swaps are used as hedging instruments. The Company exercises its 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 6.9 billion in hedged items on the liabilities side (amounts owed to customers) and EUR 6.8 billion on the assets side (receivables from customers) are included in a hedging valuation unit. BMW Bank GmbH has thereby hedged EUR 6.1 million in respect of its exposure to interest rate risk based on the EURIBOR or EONIA base rates.

Given the average financing and leasing term of three years and the regular, rolling adjustment of hedges to the portfolio risk structure, it is expected that the future opposite changes in value will be hedged in accordance with the Company's risk strategy. 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 item or the hedging instrument is recognized in income by recording a provision for the expected loss under the imparity principle of § 249 HGB.

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, issued by the German Institute of Public Auditors (IDW). Taking into account risk costs and administrative expenses, as of December 31, 2017, the present value of the portfolio measured over the total reporting period exceeded the carrying amount of the interest position as a whole. Therefore, as in the previous year, no provision for expected losses was required.

The accounting method authorized by § 340c (2) HGB has been used.

As of December 31, 2017, the statement of interest from interest rate derivatives has been revised to achieve a more economically appropriate presentation and is now reported on a net basis per interest rate derivative. In the interest of improved transparency, **negative interest** from non-derivative transactions continues to be separately shown in the income statement.

## C. Notes to the Balance Sheet

### 1. Assets

**Receivables from credit institutions**

Receivables from credit institutions included receivables from affiliated companies in the amount of EUR 2.4 billion (previous year: EUR 1.7 billion).

**Receivables from customers**

Receivables from customers included receivables from leasing business in the amount of EUR 1,029.4 million (previous year: EUR 996.2 million), as well as EUR 639.5 million (previous year: EUR 451.8 million) for items relating to factoring in connection with the financing business.

**Bonds and other fixed-income securities**

This item amounted to EUR 942.4 million (previous year: EUR 777.8 million) as of the reporting date and included in particular listed securities in an amount of EUR 536.0 (previous year: EUR 522.0 million). An amount of EUR 406.4 million (previous year: EUR 255.8 million) was attributable to securities from ABS transactions, not all of which were exchange-listed. No securities will mature in fiscal year 2018.

The lending value of the securities that are eligible to serve as collateral with Deutsche Bundesbank amounted to EUR 530.0 million as of December 31, 2017. No funding from this source had been drawn as of December 31, 2017.

**Shares in affiliated companies**

BMW Bank GmbH holds a 99.99 % interest (EUR 257.4 million) in BMW Finance S.N.C., Guyancourt, France. The equity of BMW Finance S.N.C., Guyancourt, France, under IFRS totaled EUR 419.0 million as of December 31, 2017 (previous year: EUR 364.0 million). In fiscal year 2017 the company recorded an after-tax profit under IFRS of EUR 56.1 million (previous year: EUR 39.6 million).

**Leased assets**

As security for third-party liabilities, BMW Bank GmbH transferred title to lease vehicles in the amount of EUR 8.7 billion (previous year EUR 8.2 billion), partly in connection with ABS transactions (sale of future receivables from ongoing lease agreements) and partly under a loan agreement internal to the Group.

**Other assets**

This item contained primarily receivables from affiliated companies from ABS transactions. These resulted from refund claims arising from excess spread in the amount of EUR 173.2 million (previous year: EUR 133.1 million), receivables in connection with subordinated loans granted in the amount of EUR 43.4 million (previous year: EUR 71.6 million), and deposited cash reserve in the amount of EUR 6.0 million (previous year: EUR 85.5 million).

Other material items were EUR 76.8 in tax assets (previous year: EUR 61.5 million), EUR 47.8 million in collateral deposited for OTC derivatives (previous year: EUR 49.0 million), and EUR 15.0 million in trade receivables (previous year: EUR 26.3 million).

EUR 0.5 million in receivables from the leasing business were also included in "other assets" (previous year: EUR 0.5 million).

## 2. Equity and Liabilities

**Liabilities to customers**

This item comprised EUR 6.6 billion in amounts owed to affiliated companies (previous year: EUR 5.9 billion). EUR 4.9 billion of this total was secured by the transfer of title to vehicles (previous year: EUR 3.8 billion).

**Other liabilities**

This item comprised in particular EUR 2.5 billion in liabilities owed to affiliated companies from a residual value ABS structure used to securitize the future residual value of the lease vehicles (previous year: EUR 2.5 billion). Also included in this item were ABS transactions from the securitization of receivables from customer financing in the amount of EUR 3.3 billion (previous year: EUR 2.5 billion), the increase being attributable to an additional ABS transaction. This item also included two ABS transactions involving securitization for the sale of receivables from future lease installments in the amount of EUR 707.0 million (previous year: EUR 994.0 million). The decrease is due to scheduled amortization.

"Other liabilities" furthermore included primarily the transfer of EUR 249.5 million in profit to owner BMW AG, (previous year: EUR 239.3 million), EUR 155.6 million in trade payables (previous year: EUR 113.3 million), and EUR 10.6 million in tax liabilities (previous year: EUR 14.2 million).

For the first time, "other liabilities" totaling EUR 45.2 million were secured by assignments of accounts receivable.

**Deferred income**

This item broke down as follows:

| | 12/31/2017 | 12/31/2016 |
|---|---:|---:|
| | EUR million | EUR million |
| Leasing down-payments | 303.7 | 289.8 |
| Interest and promotion subsidies | 178.9 | 137.7 |
| Interest in the lending business | 39.5 | 752.0 |
| Other | 10.2 | 7.6 |
| Deferred income | 532.3 | 1,187.1 |

**Provisions for pensions and similar obligations**

The cost of the assets used to fund retirement benefits amounted to EUR 56.8 million (previous year: EUR 61.0 million). The assets had a fair value of EUR 70.5 million as of the reporting date (previous year: EUR 76.4 million). Corresponding liabilities amounted to EUR 52.7 million (previous year: EUR 54.8 million). EUR 9.8 million in expenses were recognized in 2017 (previous year: EUR 7.3 million) and EUR 2.7 million in corresponding income (previous year: EUR 7.0 million).

A bank guarantee was concluded in 2017 to cover partial retirement commitments; the existing plan assets totaling EUR 1.2 million were reallocated to the "pension commitment" retirement plan. Liabilities in an amount of EUR 1.3 million arose (previous year: EUR 2.3 million). EUR 0.4 million in expenses were recognized in fiscal year 2017 (previous year: EUR 0.5 million) and income of EUR 0.3 million (previous year: EUR 0.2 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 amounted to EUR 18.9 million (previous year: EUR 22.6 million). For the "retirement capital" plan, the deficit (net liability) after netting was EUR 1.1 million (previous year: EUR 1.1 million); this was included in a pension provision. The provision for partial retirement pensions amounted to EUR 1.3 million (previous year: EUR 1.1 million).

In fiscal year 2017, the discounting of pension provisions led to interest expense in an amount of EUR 5.2 million (previous year: interest income of EUR 3.1 million).

The difference between discounting pension provisions using a 10 year average rate (EUR 52.6 million) and a 7 year average rate (EUR 62.9 million) was EUR 10.3 million. This amount is barred from distribution under § 253 (6) HGB.

**Other provisions**

Other provisions were accrued in particular for commissions payable (EUR 46.0 million; previous year: EUR 41.6 million), outstanding invoices (EUR 36.1 million; previous year: EUR 37.5 million), litigation and collection costs (EUR 33.5 million; previous year: EUR 40.2 million), employee bonuses (EUR 22.1 million; previous year: EUR 22.1 million), and vouchers for replacement cars during service and repairs (EUR 15.2 million; previous year: EUR 12.6 million).

**Fund for general banking risks**

The special item "Fund for General Banking Risks" pursuant to § 340g HGB increased year-on-year to EUR 1.08 billion (previous year: EUR 1.03 billion). A sum of EUR 50.0 million from current year profits was allocated to this fund, thus enabling BMW Bank GmbH to strengthen its own funds for regulatory purposes.

**Equity**

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

## D. Notes to the Income Statement

**Net interest income**

The net interest income of EUR 452.5 million (previous year: EUR 429.4 million) reflected 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.

The statement of interest from interest rate hedging on a net basis in fiscal year 2016 would have reduced both interest income and interest expense in the previous year by EUR 9.3 million.

**Net leasing income**

The EUR 1.7 billion in net leasing income (previous year: EUR 1.7 billion) reflected mainly the income generated from leasing contracts and service fees, the expense of service components, and the termination of leases.

**Net commission income**

The negative net commission income of EUR 100.9 million (previous year: EUR 88.9 million) included above all income and fees generated from customer and dealer financing, from the leasing business, and from insurance brokerage services. This revenue was offset, in particular, by commission expenses for the brokerage of customer agreements.

**Other operating income**

This item comprised in particular of revenues from customer business (EUR 65.2 million; previous year: 62.2 million), compensation receivable from insurance companies from damage claim settlement and from damage charged on to customers (EUR 48.2 million; previous year: EUR 41.7 million), and currency conversion gains from importer financing and its refinancing (EUR 36.6 million; previous year:

EUR 31.5 million). In addition, this item included income from the reversal of provisions in the amount of EUR 25.2 million (previous year: EUR 32.9 million).

EUR 105.4 million in income (previous year: EUR 91.6 million) was attributable to the leasing business and resulted from insurance claims settlement, from fees and maintenance, and from vehicle seizures.

The amount received under existing service level agreements with affiliated companies declined to EUR 53.9 million (previous year: EUR 69.3 million) primarily due to a change in the German Employee Lending Act (AÜG). Through 06/30/2017, employees of BMW Bank GmbH were loaned to Alphabet Fuhrparkmanagement GmbH, Munich, pursuant to an intra-Group lending arrangement. Effective 07/01/2017, the employment relationships of these employees were transferred from BMW Bank GmbH to Alphabet Fuhrparkmanagement GmbH, Munich. Charges for HR services provided were reduced accordingly from this time on.

**Depreciation of leased assets**

Depreciation expenses on leased assets amounted to EUR 1.5 billion (previous year: EUR 1.4 billion), of which EUR 50.6 million resulted from impairment losses (previous year: EUR 20.1 million).

**Other operating expenses**

Other operating expenses mostly comprised expenses for currency conversion losses from refinancing importer financing (EUR 36.6 million; previous year: EUR 31.5 million), expenses for the collection of receivables (EUR 11.0 million; previous year: EUR 13.7 million), expenses for statutory and voluntary deposit protection fund contributions (EUR 7.7 million; previous year: EUR 6.5 million), and expenses for disposals of carrying amounts for vehicles at the end of their lease agreement (EUR 7.1 million; previous year: EUR 6.8 million).

Other operating expenses included costs of the leasing business in the amount of EUR 24.3 million (previous year: EUR 23.8 million).

**Write-downs and impairments of receivables and certain securities**

Additions to impairments resulted in expenses of EUR 115.6 million (previous year: EUR 114.8 million), while the reversal of impairments led to EUR 87.3 million in income (previous year: EUR 113.9 million).

Direct write-offs of receivables amounted to EUR 13.4 million (previous year: EUR 26.0 million). Income of EUR 7.5 million (previous year 8.5 million) was recorded from receivables previously written off.

**Income taxes**

Taxes on income and earnings (EUR 56.3 million; previous year: EUR 36.0 million) reflected almost exclusively the income taxes of the foreign branches.

## E. Other Notes

### 1. 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)

| | Shareholder | Other affiliated companies | Total |
|---|---|---|---|
| | EUR million | EUR million | EUR million |
| Receivables from credit institutions | - | 2,352.2 | 2,352.2 |
| Receivables from customers | 0.7 | 130.5 | 131.2 |
| Other assets | 1.2 | 225.5 | 226.7 |
| Liabilities to customers | 48.2 | 6,548.8 | 6,597.0 |
| Other liabilities | 309.6 | 6,507.8 | 6,817.4 |

### 2. Residual maturities

Residual maturities in the 2017 fiscal year 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.

| | 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 | Total |
|---|---|---|---|---|---|
| | EUR million | EUR million | EUR million | EUR million | EUR million |
| Other receivables from credit institutions | 298.5 | 781.0 | 1,176.0 | - | 2,255.5 |
| Receivables from customers | 2,060.6 | 3,025.1 | 8,280.0 | 143.7 | 13,509.4 |
| Other liabilities to credit institutions | 50.0 | 0.0 | 0.0 | 0.0 | 50.0 |
| Other liabilities to customers with an agreed maturity or cancellation period | 1,382.3 | 2,884.5 | 4,056.0 | 129.2 | 8,452.0 |

### 3. Statement of fixed assets

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

### 4. Country-specific reporting pursuant to § 34 II RechKredV

The following table provides an overview of the income generated by the respective branches in fiscal year 2017:

| | Italy | Spain | Portugal |
|---|---|---|---|
| | EUR million | EUR million | EUR million |
| Interest income | 147.1 | 95.7 | 15.1 |
| Commission income | 23.3 | 16.7 | 0.6 |
| Other operating income | 71.9 | 12.3 | 4.7 |

In addition, income of EUR 10.1 million (previous year: EUR 12.7 million) was also derived from financing the subsidiary BMW Finance S.N.C., Guyancourt, France. BMW Bank GmbH furthermore recorded income from worldwide financing of BMW Importers in the amount of EUR 9.2 million (previous year: EUR 11.1 million), of which EUR 4.9 million stemmed from business transacted in USD (previous year: EUR 5.3 million). Due to the low level of income derived outside the EU compared to total income, this is not disclosed separately.

## 5. Derivative financial instruments

The Company held the following derivative financial positions as of December 31, 2017:

| | Nominal amount | Fair values |
|---|---|---|
| | EUR million | EUR million |
| Interest rate swaps with positive fair values | 5,205 | 6.2 |
| Interest rate swaps with negative fair values | 7,691 | -15.7 |
| **Derivative financial positions** | **12,896** | **-9.5** |

The fair value of swaps was measured in line with their present value, which was calculated by discounting the variable and fixed interest payments based on the interest rate term structure at year-end. The derivatives used for hedging purposes were not individually measured.

## 6. Contingencies, commitments and other financial commitments

Irrevocable loan commitments (committed credit facilities) existed to affiliated companies (EUR 28.0 million; previous year: EUR 28.0 million), for dealer financing (EUR 110.0 million; previous year: EUR 128.9 million), for customer financing (EUR 5.7 million; previous year: EUR 4.4 million), and for importer financing (EUR 2.9 million; previous year: EUR 3.5 million).

BMW Bank GmbH's other financial commitments amounted to EUR 74.5 million as of the reporting date. They consisted entirely of commitments to BMW AG. They arose primarily from the invoicing of IT services (EUR 73.7 million).

The contingent liabilities consist of liabilities from obligations as surety / guarantor and litigation risks in the amount of EUR 35.8 million.

The risk that the contingent liabilities will materialize is deemed minimal as there were no identifiable risks as of the reporting date.

## 7. Translation of foreign currency items

The translation of foreign currency items as of December 31, 2017 is as follows:

| | 12/31/2017 | 12/31/2017 |
|---|---|---|
| | in USD million | in EUR million |
| Receivables from credit institutions | 12.7 | 10.6 |
| Receivables from importer financing | 197.7 | 164.9 |
| Receivables from importer financing subsidies | 0.4 | 0.3 |
| Liabilities from importer financing | 210.3 | 175.4 |

## 8. Management Board and Supervisory Board

### Members of the Management Board

The members of the Management Board are as follows:

**Hans-Jürgen Cohrs**
Chairman of the Management Board

**Gerald Holzmann**
Head of Finance

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

**Thomas Weber**
Head of Risk Management

The members of the Management Board received total remuneration of EUR 2.5 million for their activities in the reporting year.

### Members of the Supervisory Board

**Erich Ebner von Eschenbach**
Chairman of the Supervisory Board (until 07/20/2017)
Member of the Supervisory Board (until 10/31/2017)
Head of Financial Services for the BMW Group (until 06/30/2017)
Head of Aftersales Business Management for the BMW Group (since 07/01/2017)

**Dr. Thomas Wittig**
Chairman of the Supervisory Board (since 07/20/2017)
Deputy Chairman of the Supervisory Board (until 07/20/2017)
Head of Group Reporting for the BMW Group (until 06/30/2017)
Head of Financial Services for the BMW Group (since 07/01/2017)

BMW France S.A., Montigny le Bretonneux, France (Deputy Chairman)*
(until 09/27/2017)
BMW Motoren GmbH, Steyr, Austria (Deputy Chairman)* (until 05/04/2017)
BMW Nederland B.V., Den Haag, Netherlands* (until 04/18/2017)
BMW Österreich Holding GmbH, Steyr, Austria (Chairman)* (until 08/31/2017)

**Guido Boschetto**
Chairman of the Central Works Council of BMW Bank GmbH, Munich

**Waldemar Kittler**
Deputy Chairman of the Supervisory Board
Chairman of the Works Council of BMW Bank GmbH, Munich

* Membership in the comparable domestic or foreign supervisory bodies of business enterprises.

**Norbert Mayer**

Head of Group Finance for the BMW Group
BMW Finance N.V., Den Haag, Netherlands* (until 03/01/2017)
BMW International Investment B.V., 's-Gravenhage, Netherlands* (until 03/01/2017)

**Heike Schneeweis**

Head of Human Resources / BMW Group Senior Executives

**Jonathan Townend**

Member of the Supervisory Board (since 11/01/2017)
Head of Financial Statements, Interim Reporting (until 06/30/2017)
Head of Group Reporting, Taxes, for the BMW Group (since 07/01/2017)
BMW Österreich Holding GmbH* (since 09/01/2017)

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

## 9. Number of employees

The Company had 1,262 employees on average (previous year: 1,716). In the previous year, this figure included employees transferred under service level agreements. The sharp decline in the number of employees in Germany is due to the change in the Employee Lending Act. Through 06/30/2017, BMW Bank GmbH loaned employees to Alphabet Fuhrparkmanagement GmbH pursuant to an intra-Group lending arrangement. Effective July 1, 2017, the employment relationships of the respective employees of BMW Bank GmbH were transferred to Alphabet Fuhrparkmanagement GmbH.

| | 2017 | 2016 |
|---|---|---|
| Germany, Munich | 853 | 1,310 |
| Branches | | |
| Italy, San Donato Milanese | 225 | 224 |
| Spain, Madrid | 141 | 139 |
| Portugal, Porto Salvo | 43 | 43 |
| **Total employees** | **1,262** | **1,716** |

## 10. Auditor's services and fees

The services rendered in fiscal year 2017 to BMW Bank GmbH by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, 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 and reviewing the IFRS reporting for purposes of the Group interim and annual consolidated financial statements of BMW AG.

Other assurance services consist primarily of project review services and assurance services that are statutorily mandated, contractually agreed, or voluntarily commissioned.

The auditor's total fee for fiscal year 2017 is disclosed in the consolidated financial statements of Bayerische Motoren Werke Aktiengesellschaft, Munich.

## 11. Group accounting

BMW Bank GmbH is included in the 2017 consolidated financial statements of BMW AG, Munich, which are prepared in accordance with § 315a HGB and will be published in the electronic Federal Gazette. The Company therefore applies the exemption from preparing consolidated financial statements set out in § 291 HGB.

Munich, March 6, 2018

The Management

| Signature | Signature | Signature | Signature |
|---|---|---|---|
| Hans-Jürgen Cohrs | Gerald Holzmann | Dr.-Ing. Markus Walch | Thomas Weber |

## <u>Attachment 1</u>:

# Statement of Fixed Assets of BMW Bank GmbH, Munich, for Fiscal Year 2017

| | Acquisition costs | | | | | Accumulated depreciation | | | | | | Carrying amounts | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 01/01/2017 | Additions | Disposals | Transfer | 12/31/2017 | 01/01/2017 | Additions | Write-ups | Disposals | Transfer | 12/31/2017 | 12/31/2017 | 12/31/2016 |
| | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR |
| **I. Bonds and other fixed-income securities** | 255,700 | 150,600 | - | - | 406,300 | - | - | - | - | - | - | 406,300 | 255,700 |
| **II. Shares in affiliated companies** | 257,426 | - | - | - | 257,426 | - | - | - | - | - | - | 257,426 | 257,426 |
| **III. Leased assets** | 10,599,622 | 4,185,480 | 3,618,928 | - | 11,166,174 | 2,327,501 | 1,493,427 | - | 1,452,582 | 2,508 | 2,370,854 | 8,795,320 | 8,272,121 |
| **IV. Property, plant, and equipment** | 5,138 | 1,936 | 706 | - | 6,368 | 3,581 | 408 | - | 82 | - | 3,907 | 2,461 | 1,557 |
| | **11,117,886** | **4,338,016** | **3,619,634** | **-** | **11,836,268** | **2,331,082** | 1,493,835 | **-** | **1,452,664** | **2,508** | **2,374,761** | **9,461,507** | **8,786,804** |

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## Country-Specific Reporting Pursuant to § 26a (1) KWG as of 12/31/2017 for BMW Bank GmbH, Munich

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

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

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

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

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

BMW Finance S.N.C., Guyancourt, France, is a non-consolidated subsidiary in France. The reporting is based on IFRS figures as used by BMW Group for purposes of the consolidated financial statements because no figures under the accounting rules of the German Commercial Code exist.

The required disclosures for 2017 were as follows (in EUR million):

| Name | Country | Turnover | Number of employees | Before tax profit | Taxes on profit |
|---|---|---|---|---|---|
| BMW Bank GmbH | Munich, Germany | 2,021.58 | 853 | 115.92 | 0.12 |
| BMW Bank GmbH Succursale Italiana | San Donato Milanese, Italy | 219.29 | 225 | 123.16 | 37.84 |
| BMW Bank GmbH Sucursal en Espana | Madrid, Spain | 90.75 | 141 | 55.68 | 15.95 |
| BMW Bank GmbH Sucursal Portuguesa | Porto Salvo, Portugal | 16.54 | 43 | 12.21 | 2.44 |
| BMW Finance S.N.C. | Guyancourt, France | 335.96 | 169 | 87.53 | 24.73 |

The comparison figures for 2016 were (in EUR million):

| Name | Country | Turnover | Number of employees | Before tax profit | Taxes on profit |
|---|---|---|---|---|---|
| BMW Bank GmbH | Munich, Germany | 2,053.40 | 835 | 140.51 | 0.00 |
| BMW Bank GmbH Succursale Italiana | San Donato Milanese, Italy | 218.97 | 224 | 75.64 | 22.64 |
| BMW Bank GmbH Sucursal en Espana | Madrid, Spain | 77.35 | 139 | 45.46 | 11.16 |
| BMW Bank GmbH Sucursal Portuguesa | Porto Salvo, Portugal | 16.10 | 43 | 9.73 | 2.24 |
| BMW Finance S.N.C. | Guyancourt, France | 316.14 | 166 | 59.00 | 8.96 |

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 in 2017 of the group of financial institutions under BMW Bank GmbH, Munich, was 0.00 % (2016: 0.00 %).

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**BMW Bank GmbH, Munich**

**Management Report 2017**

# 1 Business Report

## 1.1 General economic situation

The world economy grew by 3.7 % in the 2017 reporting period, a slight increase over last year. Despite the political uncertainties, the economic upturn extended to all of the world's regions. The economic output of the United States expanded by 2.3 % in 2017. The rate of growth in China was also slightly above that of last year. Emerging markets such as Russia (+1.8 %) and Brazil (+0.9 %) likewise managed a return to growth.

2017 was the fourth consecutive year of growth for the Eurozone. With gross domestic product (GDP) rising by 2.5 %, it posted the largest increase since the financial crisis. Euro area GDP growth was furthermore broad-based: France (+1.9 %), Italy (+1.5 %), Spain (+3.1 %). The positive trend was supported by encouraging order volume for industry, increased exports, and greater willingness to invest. One consequence of this was that the high unemployment experienced in recent years fell to its lowest level in a long time. Despite increased government spending, the debt ratio of the 19 member Eurozone declined slightly to 88 % of GDP.

Germany's GDP rose by 2.2 %, making it a major contributor to Eurozone growth. The Ifo index of business sentiment in Germany, an early indicator of economic trends, rose by 6.4 points year-over-year to 117.2, and thus remained at a high level.

## 1.2 Industry-specific situation

While the Federal Reserve System (FED) increased its key interest rate to a range from 1.25 % to 1.50 % in December, the comparable interest rate remains at an historic low of 0 % in the Eurozone. The monetary policy of the ECB remains unchanged.

The low interest environment persists in Europe. The yields of government and corporate bonds changed only slightly in the fiscal year elapsed and remain low. While the low interest rates benefit banks from a refinancing perspective, they depress earnings by reducing loan interest rates and margins. However, the challenges posed by the prolonged low interest phase as well as those of digitization vary considerably depending on the business strategy of the bank in question. While the return on equity of mortgage lenders, major banks, and building and loan associations is already low today, direct banks and automobile banks are generating above-average returns on equity. This is attributable to the positive overall development of the automobile market, especially in the leasing sector, among other things.

Registrations of cars and light utility vehicles rose in 2017 by 1.9 % on the international automobile markets to 87.7 million vehicles. This continues last year's positive overall trend, albeit at a reduced pace. The sources of momentum were above all Europe (15.6 million units / +3.3 %) and China (24.7 million units / +2.4 %). Registrations increased solidly in both Italy (2.0 million units / +8.0 %) and Spain (1.2 million units / +7.7 %). Both the French automobile market, which grew by 4.8 % in the reporting period to 2.1 million units, and that in Germany, which expanded by 2.7 % to 3.4 million units, were in better condition than one year ago.

The leasing industry also continued to expand in 2017 with performance that was considerably more dynamic than that of the economy as a whole. Investments in the leasing of personal and real property in Germany totaled EUR 58.5 billion, representing growth of 5.7 %. With its 77.0 % share, vehicle leasing drove the industry. Leased vehicles accounted for 40.0 % of all new motor vehicle registrations in 2017, with the leasing industry benefiting from the strong automobile business activity.

Despite the persistence of the low-interest environment, savings behavior in Germany is virtually unchanged (savings ratio 9.8 %). Given the pronounced aversion to risk of German investors and the reduced incremental yield of long-term bank deposits, the greater part of monetary assets was placed in short-term, liquid bank deposits in 2017 as well.

Based on total assets, BMW Bank GmbH, Munich (BMW Bank GmbH) is among the 100 largest German banks, ranking 36th in the latest study done by "Die Bank" magazine.

## 2 Company-specific underlying conditions

### 2.1 Business activities

Established in 1971, BMW Bank GmbH is today one of Germany's leading automobile banks. It operates three branches – in Italy, Spain, and Portugal. BMW Bank GmbH also holds a majority interest in a French subsidiary, BMW Finance S.N.C., Guyancourt, France. Together with its branches and its subsidiary, BMW Bank GmbH constitutes a group of financial institutions.

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 and its group of financial institutions as of December 31, 2017 / in fiscal year 2017 are broken down by regions in the following table:

| Lending volumes in EUR million | Germany | Italy | Spain | Portugal | BMW Bank GmbH | France | Group of fin. institutions |
|---|---|---|---|---|---|---|---|
| Customer financing | 5,554.7 | 2,407.7 | 1,416.1 | 270.0 | **9,648.5** | 685.9 | **10,334.4** |
| Dealer and importer financing | 2,364.5 | 759.7 | 431.8 | 146.3 | **3,702.3** | 955.2 | **4,657.5** |
| Operating leases (leased assets) | 8,689.6 | 65.9 | 39.8 | 0 | **8,795.3** | 1,562.6 | **10,357.9** |
| **Total** | **16,608.8** | **3,233.3** | **1,887.7** | **416.3** | **22,146.1** | **3,203.7** | **25,349.8** |

| Number of new contracts | Germany | Italy | Spain | Portugal | BMW Bank GmbH | France | Group of fin. institutions |
|---|---|---|---|---|---|---|---|
| Customer financing | 124,272 | 51,948 | 38,767 | 7,232 | **222,219** | 16,774 | **238,993** |
| Dealer and importer financing | 330,844 | 71,793 | 76,910 | 20,479 | **500,026** | 136,383 | **636,409** |
| Operating leases | 111,041 | 491 | 495 | 0 | **112,027** | 27,271 | **139,298** |
| **Total** | **566,157** | **124,232** | **116,172** | **27,711** | **834,272** | **180,428** | **1,014,700** |

| Number of existing contracts | Germany | Italy | Spain | Portugal | BMW Bank GmbH | France | Total for group of fin. institutions |
|---|---|---|---|---|---|---|---|
| Customer financing | 336,810 | 159,223 | 91,765 | 17,711 | **605,509** | 45,455 | **650,964** |
| Dealer and importer financing | 72,573 | 16,252 | 12,485 | 2,972 | **104,282** | 27,595 | **131,877** |
| Operating leases | 307,131 | 2,866 | 1,023 | 0 | **311,020** | 64,799 | **375,819** |
| **Total** | **716,514** | **178,341** | **105,273** | **20,683** | **1,020,811** | **137,849** | **1,158,660** |

## 2.2 Products and services

### 2.2.1 Retail business

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

BMW Bank GmbH's financing products include basic and balloon loans for new, demonstration, and used BMW and MINI brand vehicles 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. It includes extra modules giving customers comfort and service in addition to mobility.

### 2.2.2 Dealer financing

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

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

### 2.2.3 Importer financing

In addition to dealer financing, the Bank also extends loans for BMW Group products to BMW importers. BMW Bank GmbH thus plays a major role in promoting automobile sales in the potential markets of tomorrow.

### 2.2.4 Banking

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

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

In addition, BMW credit cards for customers (BMW credit cards) and BMW corporate cards for employees are offered as part of co-branding models. There was total credit card volume of approx. 100,000 cards at the end of the reporting year (December 31, 2017).

### 2.2.5 Insurance

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

# 3 Analysis of business development

## 3.1 Business development

The number of new contracts in the retail business of BMW Bank GmbH rose by 0.6 % to 334,246 contracts (previous year: 332,179). This growth is attributable in particular to higher vehicle unit sales and a higher penetration rate in Spain, where it was possible to boost new contract volume by 4,078 (+11.6 %). In Germany, by contrast, the number of new contracts declined by 0.7 % (1,572 contracts) since here the increase in the rate of penetration was only partially able to offset somewhat lower unit sales of BMW Group vehicles. The total number of customer financing and lease contracts in the retail business increased by 4.2 % to 916,529 contracts (previous year: 879,774).

In the dealer financing business, the total number of existing contracts at year's end rose by 8.8 % to 87,765 contracts (previous year: 80,669).

In importer financing, the total number of existing contracts fell from 19,385 contracts in the previous year to 16,517 contracts, a decrease of 14.8 %. This is attributable in particular to declining business volume in the Near East.

The deposit volume of BMW Bank GmbH increased from EUR 8.5 billion to EUR 9.1 billion.

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

## 3.2 Net assets and financial position

The total assets of BMW Bank GmbH increased by EUR 1.2 billion to EUR 26.6 billion. On the assets side, this growth was based in particular on the rise in receivables from credit institutions and in leased assets. The increase on the liabilities side reflected primarily a rise in liabilities to customers.

### 3.2.1 Assets

Changes in assets are summarized in the following table:

| | 12/31/2017 | 12/31/2016 | Change |
|---|---|---|---|
| | EUR million | EUR million | EUR million |
| Cash reserve | 44.2 | 210.0 | -165.8 |
| Receivables from credit institutions | 2,589.7 | 2,037.5 | 552.2 |
| Receivables from customers | 13,509.4 | 13,314.5 | 194.9 |
| Bonds and other fixed-income securities | 942.4 | 777.8 | 164.6 |
| Shares in affiliated companies | 257.4 | 257.4 | 0.0 |
| Property, plant, and equipment | 8,797.8 | 8,273.7 | 524.1 |
| Leased assets | 8,795.3 | 8,272.1 | 523.2 |
| Fixed assets | 2.5 | 1.6 | 0.9 |
| Other assets | 426.2 | 467.2 | -41.0 |
| Prepaid expenses | 26.0 | 24.2 | 1.8 |
| Surplus of plan assets over pension liabilities | 18.9 | 22.6 | -3.7 |
| **Total assets** | **26,612.0** | **25,384.9** | **1,227.1** |

The liquid assets on hand as of the balance sheet date (December 31, 2017) were sufficient to ensure current liquidity. The **cash reserve** declined for interperiod accounting reasons.

The increase in **receivables from credit institutions** resulted primarily from an increase of EUR 615.9 million in loans disbursed to our subsidiary BMW Finance S.N.C., Guyancourt, France. Overnight deposits with external credit institutions also increased. This was partially offset by a decline of EUR 100.0 million for interperiod accounting reasons in term deposits with external banks.

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

| | 12/31/2017 | 12/31/2016 | Change |
|---|---|---|---|
| | EUR million | EUR million | EUR million |
| Customer financing | 9,648.5 | 9,636.7 | 11.8 |
| Germany | 5,554.7 | 5,692.3 | -137.6 |
| Italy | 2,407.7 | 2,423.3 | -15.6 |
| Spain | 1,416.1 | 1,275.6 | 140.5 |
| Portugal | 270.0 | 245.5 | 24.5 |
| Dealer financing | 3,113.8 | 2,866.1 | 247.7 |
| Germany | 1,776.0 | 1,795.3 | -19.3 |
| Italy | 759.7 | 563.1 | 196.6 |
| Spain | 431.8 | 349.5 | 82.3 |
| Portugal | 146.3 | 158.2 | -11.9 |
| Importer financing (Germany) | 588.5 | 680.4 | -91.9 |
| Operating leases | 13.7 | 13.1 | 0.6 |
| Germany | 12.1 | 12.3 | -0.2 |
| Italy | 0.6 | 0.3 | 0.3 |
| Spain | 1.0 | 0.5 | 0.5 |
| Other receivables | 144.9 | 118.2 | 26.7 |
| **Receivables from customers** | **13,509.4** | **13,314.5** | **194.9** |

Customer financing

In 2016, this item included future interest not yet due in an amount of EUR 710.7 million. This election to capitalize is no longer exercised as of December 31, 2017. To facilitate comparison of fiscal years 2016 and 2017, the figures for fiscal year 2016 in the following table are likewise stated net of capitalized interest:

| | 12/31/2017 | 12/31/2016 (adjusted) | Change |
|---|---|---|---|
| | EUR million | EUR million | EUR million |
| Customer financing | 9,648.5 | 8,926.0 | 722.5 |
| Germany | 5,554.7 | 5,338.0 | 216.7 |
| Italy | 2,407.7 | 2,208.1 | 199.6 |
| Spain | 1,416.1 | 1,136.4 | 279.7 |
| Portugal | 270.0 | 243.5 | 26.5 |

In Germany, the volume of receivables rose somewhat. Gross receivables grew by 3.9 % in the reporting year. Furthermore, loan loss impairments declined by 5.0 %.

The branches in Spain, Italy, and Portugal also posted growth in the volume of their receivables. An increase in the volume of gross receivables was principally responsible for this expansion. While loan loss impairments in Spain increased in line with the higher gross receivables, loan loss impairments were released in the Italian and Portuguese branches.

Dealer financing

The volume of receivables from dealer financing declined somewhat in Germany. Higher gross receivables and lower loan loss impairments resulted in higher volumes of receivables for the branches in Spain and Italy.

Importer financing

In importer financing, the diminished volume of receivables was above all a consequence of the decline in financing transactions with Near Eastern countries.

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

**Bonds and other fixed-income securities** rose from EUR 777.8 million to EUR 942.4 million, principally because of the acquisition of own Class B Notes from the conclusion of ABS transactions.

**Leased assets** grew by 6.3 % to EUR 8,795.3 million due in particular to the solid growth in new contracts in Germany.

### 3.2.2 Equity and Liabilities

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

| | 12/31/2017 | 12/31/2016 | Change |
|---|---|---|---|
| | EUR million | EUR million | EUR million |
| Liabilities to credit institutions | 82.0 | 87.5 | -5.5 |
| Liabilities to customers | 15,768.8 | 14,467.8 | 1,301.0 |
| Other liabilities | 6,902.5 | 6,398.3 | 504.2 |
| Deferred income | 532.3 | 1,187.1 | -654.8 |
| Provisions | 258.6 | 226.4 | 32.2 |
| Fund for general banking risks | 1,080.0 | 1,030.0 | 50.0 |
| Equity | 1,987.8 | 1,987.8 | 0.0 |
| **Total equity and liabilities** | **26,612.0** | **25,384.9** | **1,227.1** |

The right side of the balance sheet reflects above all the refinancing of business operations. This refinancing is almost exclusively in Euros. BMW Bank GmbH refinances its operations through its deposit business, eight ABS transactions, and borrowing from Group and non-Group lenders. A small amount of refinancing is also obtained in USD for importer financing. Maturity structures at the balance sheet date ranged from due on demand to ten years (with 98.1 % maturing within three years). Interest rates vary depending on the market trend. The interest rates as of the balance sheet date ranged from 0.07 % to 1.91 %. In addition, BMW Bank GmbH held irrevocable loan commitments for EUR 700.0 million on which it has not yet drawn.

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

| | 12/31/2017 | 12/31/2016 | Change |
|---|---|---|---|
| | EUR million | EUR million | EUR million |
| Savings deposits | 3,644.0 | 3,329.9 | 314.1 |
| Other liabilities | 12,124.8 | 11,137.9 | 986.9 |
| of which to affiliated companies | 6,597.0 | 5,872.1 | 724.9 |
| **Liabilities to customers** | **15,768.8** | **14,467.8** | **1,301.0** |

BMW Bank GmbH met its payment obligations at all times in fiscal year 2017 and possessed sufficient liquidity as of the balance sheet date to meet its existing payment obligations.

**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 both future leasing receivables and customer financing receivables are securitized through the special purpose vehicle. These increased by 7.5 % to EUR 6.5 billion in the fiscal year elapsed. This resulted from entry into two ABS transactions, thus increasing the number of existing ABS transactions from seven to eight.

The decline in **deferred income** is due in particular to the fact that, as of December 31, 2017, this item no longer reflects the interperiod allocation of future interest not yet due (previous year: EUR 710.7 million); see 3.2.1. Customer Financing.

The improved contribution to earnings by the branches resulted in an increase in **provisions** for income taxes.

The **Fund for general banking risks** pursuant to § 340g HGB increased year-on-year to EUR 1,080.0 million (previous year: EUR 1,030.0 million). The allocation of EUR 50.0 million from current year profits strengthened the equity structure (own funds) of BMW Bank GmbH.

Under Article 92 of the Capital Requirements Regulation (CRR), the banking supervision authority regards a bank's equity capitalization 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 equity capitalization under the CRR, see section 4.7 (Legal and regulatory requirements) below. The following table shows own funds, equity requirements, and the key ratios considering the transition provisions for BMW Bank GmbH:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| | EUR million | EUR million |
| Own funds | 2,947.0 | 2,832.4 |
| Tier 1 capital | 2,947.0 | 2,832.4 |
| Common Equity Tier 1 capital | 2,947.0 | 2,832.4 |
| Additional Tier 1 capital | 0.0 | 0.0 |
| Tier 2 capital | 0.0 | 0.0 |
| | | |
| **Equity requirements:** | | |
| Credit default risks[1, 5] | 1,468.3 | 1,360.1 |
| Operational Risk[1] | 111.0 | 111.4 |
| Market risk[1] | 0.0 | 0.0 |
| | in % | in % |
| Common Equity Tier 1 capital ratio[2] | 14.9 | 15.4 |
| Tier 1 capital ratio[3] | 14.9 | 15.4 |
| Total capital ratio[4] | 14.9 | 15.4 |

Even if the volume of business should increase, the existing equity ratio continued to ensure an appropriate level of equity 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 surcharge").

1 Equals 8.0 % of the risk-weighted item values

2 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

3 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

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

5 The risk amount includes the own funds requirements for the risk of an adjustment to the credit valuation (CVA risk).

### 3.2.3 Other information

No material investments in tangible assets were made in the reporting year. There were moreover no material investment obligations.

**Irrevocable loan commitments** (committed credit facilities) totaling EUR 146.6 million existed as of December 31, 2017 (previous year: EUR 164.8 million). These commitments were made to affiliated companies (EUR 28.0 million), for dealer financing (EUR 110.0 million), for customer financing (EUR 5.7 million), and for importer financing (EUR 2.9 million).

BMW Bank GmbH's **Other financial commitments** amounted to EUR 74.5 million as of the balance sheet date (previous year: 78.3 million). They consisted entirely of commitments to BMW AG. They resulted primarily from the invoicing of IT services (EUR 73.7 million).

**Contingent liabilities** consisted of liabilities from obligations as surety / guarantor, and litigation risks in the amount of EUR 35.8 million.

### 3.2.4 Performance indicators

The table below shows the year-on-year development of the most significant financial and non-financial performance indicators of BMW Bank GmbH:

| | 2017 | 2016 |
|---|---:|---:|
| Return on equity[1] | 18.0 % | 20.2 % |
| New retail business lending volume (in billions) | 8.5 | 8.2 |
| Portfolio lending volume (in billions) | 22.1 | 21.5 |
| Number of employees (ø) | 1,262 | 1,716 |

As a consequence of the decrease in net operating income, there was a slight decline (-2.2 percentage points) in the return on equity of BMW Bank GmbH (before additions to the fund for general banking risks per § 340g HGB). The positive development of the business yielded a return on equity that was better than the expected moderate decline.

New retail business lending volume expanded somewhat as anticipated and the increase of EUR 0.3 billion was even at the upper end of the range of expectations. The positive performance was attributable to the marked increase in new business volume in Spain as well as to growth in Germany and Portugal. Lending volume in the asset operations portfolio, which expanded slightly by EUR 0.6 billion, was also in line with expectations. The reasons for this included in particular a solid increase in the leasing business in Germany.

As anticipated, the number of employees declined significantly by 454 employees in the fiscal year elapsed, in particular due to the transfer of employment relationships from BMW Bank GmbH to Alphabet Fuhrparkmanagement GmbH.

[1] Net operating income (before addition per § 340g HGB) / average equity (excluding amount per § 340g HGB)

### 3.3 Results of operations

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

| | 2017 | 2016 | Change |
|---|---|---|---|
| | EUR million | EUR million | EUR million |
| Net interest income | 452.5 | 429.4 | 23.1 |
| Net leasing income | 1,733.0 | 1,725.7 | 7.3 |
| Net commission income | -100.9 | -88.9 | -12.0 |
| Net other operating income | 129.0 | 152.2 | -23.2 |
| General administrative expenses | -320.8 | -335.5 | 14.7 |
| Depreciation of leased assets | -1,493.4 | -1,444.8 | -48.6 |
| Depreciation of property, plant, and equipment | -0.4 | -10.4 | 10.0 |
| Fund for general banking risks | -50.0 | -130.0 | 80.0 |
| Write-downs / impairments for receivables | -41.5 | -26.4 | -15.1 |
| **Net operating income** | **307.5** | **271.3** | **36.2** |
| Extraordinary income / expense | -0.5 | 0.0 | -0.5 |
| Income taxes | -56.3 | -36.0 | -20.3 |
| Other taxes | -1.2 | 4.0 | -5.2 |
| **Net income (before profit transfer)** | **249.5** | **239.3** | **10.2** |

The improvement in net income resulted primarily from higher net interest income and and lower additions to the fund for general banking risks under § 340g HGB. The offsetting factors included in particular higher depreciation of leased assets and lower net other operating income.

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

| | 2017 | 2016 | Change |
|---|---|---|---|
| | EUR million | EUR million | EUR million |
| Interest income from | 663.4 | 648.6 | 14.8 |
| Customer financing | 437.5 | 422.7 | 14.8 |
| Dealer financing | 81.9 | 84.2 | -2.3 |
| Leasing | 0.3 | 0.3 | 0.0 |
| ABS transactions | 121.9 | 104.7 | 17.2 |
| Affiliated companies | 11.0 | 13.7 | -2.7 |
| Hedging transactions | 2.4 | 12.8 | -10.4 |
| Other | 8.4 | 10.2 | -1.8 |
| Interest expense from | -210.9 | -219.2 | 8.3 |
| Liabilities to customers | -48.5 | -62.4 | 13.9 |
| Liabilities to Bavarian Sky | -139.7 | -125.7 | -14.0 |
| Hedging liabilities | -19.0 | -30.5 | 11.5 |
| Other | -3.7 | -0.6 | -3.1 |
| **Net interest income** | **452.5** | **429.4** | **23.1** |

The increase in interest income from customer financing is attributable above all to the Spanish branch. Greater interest income resulted here from growth in the volume of loan receivables. Interest income from ABS transactions rose by 16.4 % year-on-year to EUR 121.9 million, in particular because the number of existing ABS transactions increased from seven to eight. Interest expense in relation to Bavarian Sky S.A., Luxembourg, rose in tandem herewith due to the higher average refinancing volume. Interest income from hedging declined by EUR 10.4 million, in particular due to the statement of interest from hedging on a net basis beginning on December 31, 2017. Interest expense from hedging has been impacted analogously. Despite the increase in deposit volume, interest expenses from liabilities to customers fell markedly due to lower interest rates.

**Net leasing income** declined compared with last year due to higher impairment losses, in particular as a result of deterioration in the residual value forecasts for diesel vehicles.

| | 2017 | 2016 | Change |
|---|---|---|---|
| | EUR million | EUR million | EUR million |
| Leasing income | 3,983.6 | 4,015.6 | -32.0 |
| Leasing expenses | -2,250.6 | -2,289.9 | 39.3 |
| Net leasing income | 1,733.0 | 1,725.7 | 7.3 |
| Depreciation of leased assets | -1,493.4 | -1,444.8 | -48.6 |
| **Net leasing income after depreciation** | **239.6** | **280.9** | **-41.3** |

**Net commission income** fell to EUR -100.9 million (previous year: EUR -88.9 million) due to higher commission payments to dealers and sales personnel.

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

| | 2017 | 2016 | Change |
|---|---|---|---|
| | EUR million | EUR million | EUR million |
| Personnel expenses | 149.7 | 162.4 | -12.7 |
| Other administrative expenses | 171.1 | 173.1 | -2.0 |
| **General administrative expenses** | **320.8** | **335.5** | **-14.7** |

The EUR 12.7 million reduction in personnel expenses principally reflects the transfer of employees from BMW Bank GmbH to Alphabet Fuhrparkmanagement GmbH effective July 1, 2017. Pursuant thereto, Alphabet Fuhrparkmanagement GmbH contracted directly with its personnel, which is no longer provided under an intra-Group lending arrangement. As a result, personnel expenses for employees of Alphabet Fuhrparkmanagement GmbH were eliminated beginning with the second half of the year. The amount included in **other operating income** reflecting the re-invoicing of general administrative expenses to Group companies under service level agreements declined accordingly to EUR 53.9 million (previous year: EUR 69.3 million).

The following table summarizes changes in **write-downs and impairments for receivables** and certain securities as well as additions to loan-loss provisions:

| | 2017 | 2016 | Change |
|---|---|---|---|
| | EUR million | EUR million | EUR million |
| Net addition (reversal) | -28.3 | -1.0 | -27.3 |
| Write-downs of customer receivables | -13.4 | -26.0 | 12.6 |
| Loan-loss provisions | -1.2 | -5.1 | 3.9 |
| Income from receivables previously written off | 7.5 | 8.5 | -1.0 |
| Other | -6.1 | -2.8 | -3.3 |
| **Write-downs and impairments** | **-41.5** | **-26.4** | **-15.1** |

The increase in write-downs and impairments for receivables is attributable to reversals of impairments that were lower than in the previous year. The trend was partially offset by significant reductions in write-downs for receivables, particularly in Italy.

Changes in **Income taxes** in the fiscal year elapsed are summarized in the following table:

| | 2017 | 2016 | Change |
|---|---|---|---|
| | EUR million | EUR million | EUR million |
| Italian branch | 37.9 | 22.6 | 15.3 |
| Spanish branch | 15.9 | 11.2 | 4.7 |
| Portuguese branch | 2.4 | 2.2 | 0.2 |
| Other | 0.1 | 0.0 | 0.1 |
| **Income taxes** | **56.3** | **36.0** | **20.3** |

The stronger contributions to earnings from the foreign branches caused expenditure for **income taxes** to rise.

Expense for **other taxes** amounted to EUR 1.2 million. In fiscal year 2016, a VAT refund from previous years resulted in net income of EUR 4.0 million.

The net income for the year after Income Taxes and Other Taxes amounts to EUR 249.5 million (previous year: EUR 239.3 million). This sum is transferred to the owner BMW AG, Munich, in accordance with the profit and loss transfer agreement.

# 4 Opportunities and risk report

## 4.1 Risk management organization and policies

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

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

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

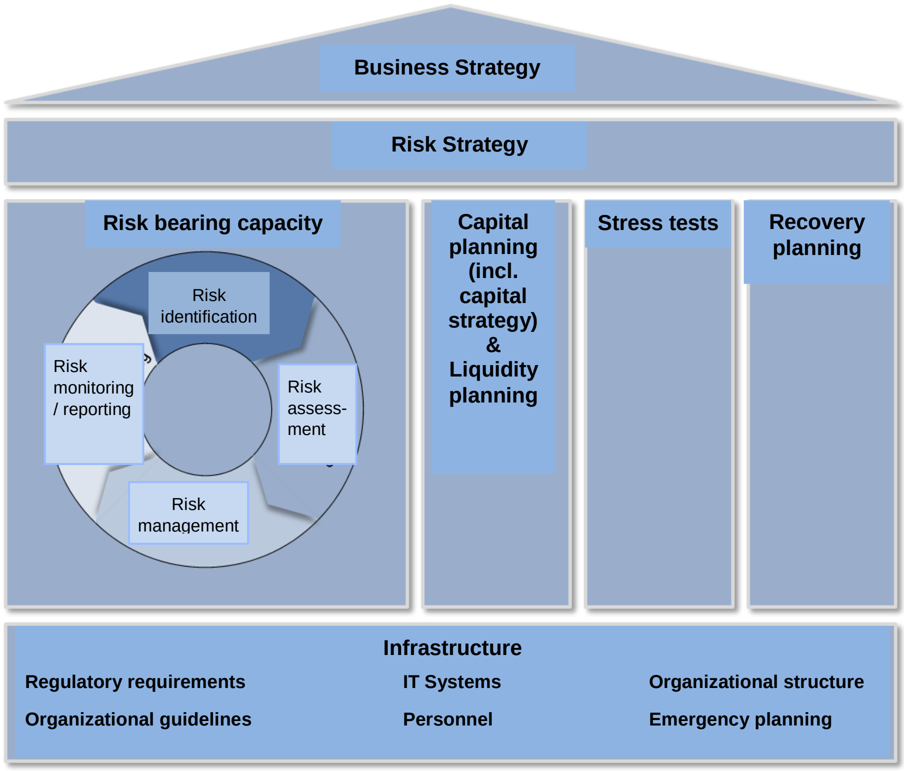
The central purpose of the comprehensive risk management of BMW Bank GmbH is to identify, assess, and actively and passively manage risks jeopardizing the attainment of the corporate goals and the ramifications of such risks, whether the risks are internal or external in nature. Risk management also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

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

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

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

The relationship between the risk management processes, the business and risk strategy, risk-bearing capacity, and the necessary infrastructure can be presented as follows:




**Risk management processes of BMW Bank GmbH**

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

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

To ensure that it has adequate equity and adequate liquidity at all times, BMW Bank GmbH has established internal interlocking ICAAP and ILAAP processes (internal capital / internal liquidity adequacy assessment processes) encompassing in particular risk-bearing capacity, capital and liquidity planning, and stress tests.

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

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

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

In the context of the recovery planning required by regulatory law, BMW Bank GmbH considers potential crisis scenarios and their implications for the Bank. The definition of recovery plan indicators and recovery measures is intended to identify any economic instability in the position of BMW Bank GmbH as early as possible and then to take effective countermeasures to address the situation.

### 4.2 Risk identification

BMW Bank GmbH conducts a risk inventory at least once a year, in the course of which a comprehensive risk catalog is used to identify the risks facing the Bank and assesses their significance. This involves a critical assessment of the extent to which the risks are relevant and material to BMW Bank GmbH and consequently must be incorporated in the processes for managing and reporting on risk and calculating risk-bearing capacity. BMW Bank GmbH has classified its material risks for fiscal year 2017 as follows:

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

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

## 4.3 Risk measurement, management, and monitoring

### 4.3.1 Counterparty default risks

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

#### 4.3.1.1 Credit risks

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

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

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

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

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

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

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

#### 4.3.1.2 Counterparty and issuer risk

At BMW Bank GmbH, counterparty risk is defined as the risk of default by a contractual party with which overnight and term deposits have been placed and the risk of default by the counterparty on an interest rate derivative. The 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.

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 and financial service providers as well as in securities. In addition, the Bank's Treasury department manages the interest rate risk of BMW Bank GmbH through interest rate derivatives. These transactions result in counterparty and issuer risks. They are integrated into the risk management process, the risk reporting, and the calculation of risk-bearing capacity by calculating the unexpected loss (CVaR; Credit Spread Value at Risk – CSVaR). Unexpected losses serve to estimate potential losses under historical conditions. This analysis is supplemented by stress tests that simulate realistic extreme events.

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

#### 4.3.1.3 Collateralization risk

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

#### 4.3.1.4 Country or transfer risk

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

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

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

The Bank in addition seeks to obtain country-specific insurance policies for exposures with high country and/or transfer risk risks.

### 4.3.2 Market risks

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

#### 4.3.2.1 Residual value risk

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

The residual values of diesel vehicles declined in 2017 due to the "diesel discussion." The increasing demand for gasoline vehicles was insufficient to fully offset this negative trend. The result was a rise in residual value losses in 2017. The losses did not approach the levels experienced in 2014 and 2015, however.

Residual value is calculated in two 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 is determined, which represents the book value of the automobile at the end of the term and thus forms the basis for calculating the monthly installments for the customer.

The residual value setting process is one means of managing the residual value risks. In this regard, a working group at BMW Bank GmbH analyzes, assesses, reviews and adjusts the existing or new base residual values. In addition, the residual value risk-bearing portfolio is also used to manage risk by continuously tracking the change in the expected fair value over the term of the lease, calculating the expected residual value loss or gain, verifying the expected return rate, and reviewing the adequacy of the risk allowances.

In addition, the residual value risk is factored into BMW Bank GmbH's risk-bearing capacity by calculating the unexpected loss (residual value at risk – RVaR).

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

#### 4.3.2.2 Interest rate risk

Interest rate risks reflect the potential losses from a change in market interest rates, i.e. the potential loss that BMW Bank GmbH could incur following a change in interest rates in the money and capital market. Conversely, it may be possible to take advantage of favorable market developments to generate a maturity transformation gain. In the low-interest environment of 2017, such factors were successfully used to generate net interest income under both the present-value and period-oriented methods.

Interest rate risks can arise when the fixed interest periods between assets and liabilities do not match. Since BMW Bank GmbH is a non-trading-book institution within the meaning of the German Banking Act (Kreditwesengesetz), interest rate risks can arise only in the banking book.

BMW Bank GmbH enters into loan and lease agreements on the assets side and finances these facilities on the liabilities side through customer deposits, ABS transactions, intra-Group loans, and outside loans. It therefore has interest-bearing items on both sides of the balance sheet with different maturities and interest rates. Interest rate risks are integrated in the risk management process, risk reporting, and risk-bearing capacity through the interest rate value at risk (IRVaR), which is determined by means of an historical simulation process. The anticipated cash flows of asset and liabilities items are used for this purpose. In addition to measuring the present value of the risk in the form of IRVaR, there is also a periodic analysis of interest rate risks. This involves analyzing different interest rate scenarios under the going concern approach considering the interest rate strategy of the Bank's Treasury department.

While regular determinations of unexpected loss are used to estimate potential losses under historical conditions, analyses are also performed using assumptions that simulate realistic extreme events. Interest rate positions are stress tested to see how they hold up to extraordinary interest rate changes under both the present value approach and the multi-period approach. The simulated results of the stress test and the interest rate shock scenarios (+200 / -200 base points) are analyzed for high risk potentials, and action is taken if necessary.

BMW Bank GmbH hedges part of the interest rate risk from its underlying transactions on a portfolio basis. Payer and receiver swaps are used as hedging instruments. The Company exercises its 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 6.9 billion in hedged items on the liabilities side (amounts owed to customers) and EUR 6.8 billion in hedged items on the assets side (receivables from customers) are included in the hedging valuation unit. BMW Bank GmbH has thereby hedged EUR 6.1 million in respect of its exposure to interest rate risk based on the EURIBOR or EONIA base rates.

Given the average financing and leasing term of three years and the regular, rolling adjustment of hedges to the portfolio risk structure, the future opposite changes in value will be hedged in accordance with the Company's risk strategy. The hedging relationship 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 item or the hedging instrument is recognized in income by recording a provision for an expected loss under the imparity principle of § 249 HGB.

#### 4.3.2.3 Price risk

BMW Bank GmbH uses the term "price risk" to refer to the danger, when investing in bonds or pension plan assets, of a market value loss resulting from price fluctuations due to changes in market interest rates or the issuer's credit rating or from changes in the general market conditions.

BMW Bank GmbH purchases primarily government securities to protect its liquidity. BMW Bank GmbH is also exposed to price risks arising from its fund-based employee pension plan. Criteria ensuring high bond grades and a sufficient degree of diversification in the bond portfolio have been established for the purchase of bonds.

Price risks are integrated in the risk management process, the risk reporting, and the calculation of risk-bearing capacity using the credit spread value at risk (CSVaR). As part of specific stress tests, both increased concentrations and price fluctuations are calculated with regard to price risks.

### 4.3.3 Liquidity risks

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

<table>
<tr><th colspan="4">Types of Liquidity Risks and Risk Management Approaches</th></tr>
<tr><th colspan="2">Insolvency risk</th><th>Refinancing cost risk</th><th>Market liquidity risk</th></tr>
<tr><td colspan="2">Risk of late and/or incomplete discharge of payment obligations</td><td rowspan="2">Risk of having to accept less favorable conditions in order to obtain additional financing</td><td rowspan="2">Risk that assets cannot be sold on the market, or only at a discount</td></tr>
<tr><td>Current</td><td>Medium and long-term</td></tr>
<tr><td>Liquidity at Risk (LaR)<br>Liquidity Coverage Ratio (LCR)</td><td>Matched Funding<br>Liquidity Planning</td><td>Liquidity Value at Risk (LVaR)</td><td>Haircuts</td></tr>
</table>

The liquidity at risk (LaR) approach, the liquidity coverage ratio (LCR), and the matched funding concept (which seeks to match the maturities of the assets and liabilities carried) are used to manage the operational liquidity risk (insolvency risk) and supplemented by ongoing liquidity planning.

In this connection, LaR, i.e. the liquidity required in stress situations, is calculated daily on the basis of internal assumptions and compared with the liquidity reserve. In 2017, the LaR was at all times covered by the available liquidity reserve. As of December 31, 2017, LaR amounted to EUR 810.4 million compared to a liquidity reserve of EUR 1,053.4 million. This represents 76.9 % utilization of the liquidity reserve by LaR. So as not to underestimate the risk that changing market circumstances may pose for liquidity (market liquidity risk), a haircut is applied when counting the securities as a liquidity reserve.

LCR is calculated based on the legal requirements of the delegated act regarding the minimum liquidity ratio and then compared with qualified highly liquid assets. To ensure that the LCR is maintained even in months with large outflows of funds, the amount of the highly liquid assets is determined so that the minimum quota is as a rule exceeded by at least 10 % even assuming the historically worst net cash outflow. In 2017, the LCR at all times exceeded the required minimum quota of 80 % under regulatory law. The LCR was 126.3 % as of December 31, 2017.

Risks resulting from refinancing costs are considered in the risk management processes, included in the risk reporting, and factored into the calculation of risk-bearing capacity through the liquidity value at risk (LVaR).

BMW Bank GmbH uses ABS structures to better diversify its refinancing activities. These ABS structures are completely factored into the risk-bearing capacity concept. In the event of a liquidity crisis, BMW Bank GmbH can acquire the ABS securities issued by the special purpose vehicle in order to deposit them as security at the European Central Bank in return for immediate liquidity.

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

### 4.3.4 Operational risks

Operational risks are defined at BMW Bank GmbH as the danger of losses from the inadequacy or outright failure of internal processes (process risks), individuals (personnel risks), and systems (infrastructure and IT risks), or that result from external events (external risks). These four risk categories include the related legal, regulatory, compliance, and behavioral risks as well as reputational risks. They also take account of operational risks arising within or because of a project.

As part of its management of operational risks, BMW Bank GmbH has appointed operational risk officers for each department or 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. All losses in excess of EUR 100 thousand as a result of operational risks are reported ad hoc to management. All operational risk scenarios with an anticipated loss exceeding EUR 100 thousand are presented to the Risk Committee for confirmation, as are all legal and compliance risks. Potential countermeasures are also discussed and adopted in this connection. The Operational Risks department monitors the progress of countermeasures with a view to durable improvement in the operational risk profile of BMW Bank GmbH. There is moreover close interaction with the Compliance, Fraud Prevention, and IT departments. To take full advantage of synergies between OpRisk and the internal control system, methodological responsibility for the internal control system of BMW Bank GmbH is also vested in OpRisk Management.

The Basel standardized approach is the basis for calculation of unexpected loss for operational risks. Under this approach, calculations are based on the three-year average value of the so-called ‘relevant indicator,’ which is derived from certain income statement items. This value is scaled to a confidence level of 99.98 % for purposes of factoring it into the risk-bearing capacity. To test the adequacy of the limit, this is cross-checked against the estimated loss in a worst case scenario. As part of specific stress tests, increased probabilities of occurrence are considered for various risk scenarios and the implications for possible reputational risks are determined.

### 4.3.5 Other types of risk

BMW Bank GmbH defines "other types of risk" as risks that are by and large managed in the process of managing the types of risk that have been described above.

#### 4.3.5.1 Modeling risk

Modeling risks can be divided into errors caused by incorrect modeling specifications and errors caused by incorrect modeling calibrations. Specification errors are errors in the structure of the statistical procedures employed. Calibration errors are defined as the error that results when the input parameters of a model cannot be calibrated with sufficient accuracy.

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

#### 4.3.5.2 Placement risk

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

In connection with its refinancing operations, BMW Bank GmbH issues asset-backed securities (ABS) through the special purpose vehicle Bavarian Sky S.A., Luxembourg. For BMW Bank GmbH, placement risks from ABS transactions represent refinancing cost risks, i.e. the risk of more expensive refinancing spreads. The risk management and reporting processes take account of placement risks and factor them into the calculation of risk-bearing capacity through the liquidity value at risk (LVaR).

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

#### 4.3.5.3 Customer option exercise risk

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

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

#### 4.3.5.4 Pension risk

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

BMW Bank GmbH records provisions reflecting the pension rights of its employees. Through the price risk model and CSVaR, the impact of market value fluctuations on the fund-based employee pension plan is considered in the risk management and reporting processes and included in the calculation of risk-bearing capacity. Actuarial opinions are periodically obtained on the provisions for retirement and partial retirement pensions and on the expenses for anniversaries for purposes of proper actuarial valuation of these provisions.

#### 4.3.5.5 Business and earnings risk

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

Numerous factors may influence the planned profitability of BMW Bank GmbH. For this reason, divergences from the planning are regularly monitored as part of the current reporting and in the forecasting / planning process. For purposes of risk-bearing capacity, losses in the fiscal year in progress diminish the risk coverage potential on a gone concern basis. Under the going concern approach, earnings risks are accounted for by deductions made when determining planned earnings.

#### 4.3.5.6 Strategic risk

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

Since quantitative estimation of the strategic risks of BMW Bank GmbH is hardly possible, they are not explicitly factored into the calculation of risk-bearing capacity. Instead, the defined strategic goals are regularly monitored as part of the short, medium, and long term business planning. The introduction of new products or projects also involves estimating their long-term consequences. Finally, the comprehensive stress test process also includes analyzing potential vulnerabilities in the Bank's strategic orientation and taking appropriate responsive action if needed.

#### 4.3.5.7 Concentration risk

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

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

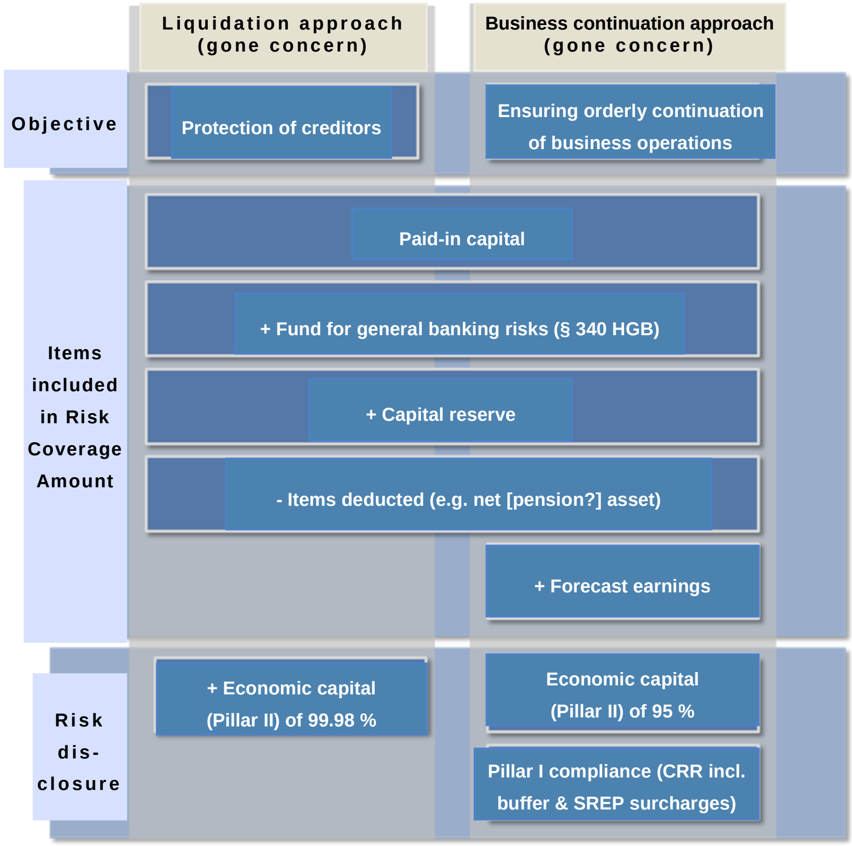
In managing individual business transactions, credit risk concentrations in dealer financing and Treasury are managed by setting and monitoring limits for the various dealers, counterparties, and issuers.

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

### 4.4 Risk-bearing capacity

BMW Bank GmbH primarily applies a liquidation-based gone concern approach in its management of risk-bearing capacity. The premise of this approach is the protection of creditors in the event the risks are realized. For purposes of the gone concern approach, BMW Bank GmbH uses a confidence level of 99.98 % with a holding period of one year. In addition, the risk-bearing capacity of BMW Bank GmbH is also reviewed at least semiannually from a going concern perspective. The going concern approach seeks to ensure the orderly continuation of the Bank's business operations. Since the December 31, 2016 reporting date, BMW Bank GmbH has used a confidence level of 95.0 % for purposes of the going concern approach, also with a holding period of one year. The reduction of the conservative confidence level from 99.0 % to 95.0 % is more than compensated for by the simultaneous conservative increase in the amount deducted from risk coverage potential to cover the Pillar 1 capital requirements under regulatory law (CRR including buffer and SREP surcharges).

The following diagram illustrates the differences in the two approaches.




**Views of risk-bearing capacity**

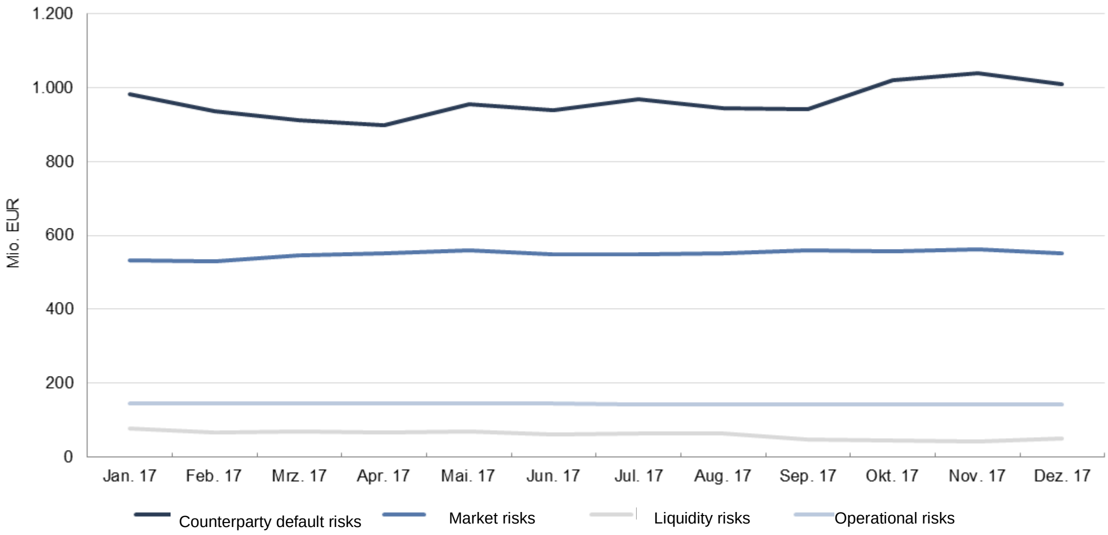
The operative management of the material risks of BMW Bank GmbH takes place in a context in which its risk-bearing capacity is guaranteed at all times. This entails using the various value at risk (VaR) procedures to measure the unexpected losses and then comparing them with the existing risk coverage potential (in the form of equity). The integrated system of limits under the gone concern approach is used to monitor risk-bearing capacity on a continuous basis. The risk-bearing capacity of BMW Bank GmbH was at all times assured in 2017.

Risk limits are set for material types of risks: counterparty default risks, market risks, liquidity risks, and operational risks. To take account of minor risks, a safety margin (buffer) is factored in; this is adjusted from year to year. The extent of limit utilization is reported to the Company's management for all types of risks in a manner analogous to the following table:

| | 12/31/2017 | | 12/31/2016 | |
|---|---|---|---|---|
| **Types of material risks (EUR million)** | **Limit** | **Utilization** | **Limit** | **Utilization** |
| Counterparty default risks | 1,172.0 | 1,009.0 | 1,124.0 | 928.9 |
| Market risks | 663.0 | 550.4 | 640.0 | 564.2 |
| Liquidity risks | 103.0 | 49.0 | 123.0 | 84.4 |
| Operational risks | 158.0 | 141.7 | 160.0 | 143.7 |
| Safety margin for minor risks | 5.3 | 5.3 | 5.3 | 5.3 |
| **Total** | **2,101.3** | **1,755.4** | **2,052.3** | **1,726.5** |

**Limit utilization of material types of risks of BMW Bank GmbH (December 31, 2016 and December 31, 2017)**

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




**Development of the various types of risks in 2017 (utilization on gone concern basis)**

The increase in **counterparty default risks** (CVaR) results from the growth in business volume. The initial decline in these risks between January and April 2017 is attributable to the reduction in intra-Group receivables in this period. The slight increase in **market risks** is due principally to the increase in residual value risks (RVaR) as a result of the increasing business volume, whereas interest rate risks (IRVaR) and credit spread risks (CSVaR) are subject to only very small fluctuations in the course of a year. With regard to **operational risks** (OpVaR), the equity required under the Basel standardized approach declines slightly in July after approval of the 2016 financial statements. The development of the **liquidity risks** (LVaR) is marked by increases in shorter-term refinancing in advance of planned placements of ABS transactions and planned ABS spread fixings and decreases in such financing after successful completion of such transactions. The placements occurred in June and in October 2017.

In addition, BMW Bank GmbH has implemented a multi-year capital planning process to supplement the risk-bearing capacity concept. This ensures that in the future, the Company will have sufficient equity (own funds) to cover risks and that risks are monitored and planned in an appropriate manner. The aim is to identify in timely fashion any capital requirements (internal and regulatory) that may arise beyond the risk planning horizon and to take appropriate action at an early stage where required. In addition to the developments anticipated in the normal course of events, adverse scenarios involving various developments that diverge from expectations are also considered. Comprehensive capital planning is carried out once annually. The results for the key planning figures are in addition updated quarterly in normal operations.

## 4.5 Recovery planning

The German Federal Financial Supervisory Authority (BaFin) has classified the BMW Bank group of financial institutions as a so-called potentially system-threatening financial institution. The Bank is required to prepare a recovery plan pursuant to the German Act Regulating the Recovery and Resolution of Banks and Financial Groups (SAG). The current recovery plan for the year 2017 was submitted to the supervisory authority on 28 December 2017.

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

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

### 4.6 Monitoring and reporting

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

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

### 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 subject areas of Basel III were codified in the Capital Requirements Regulation (CRR; directly applicable EU law). These include in particular the definition of own funds, the minimum capital requirements, liquidity, and the debt-equity ratio.

In connection with the Capital Requirements Directive IV (CRD IV), the other subjects covered by Basel III (including capital safety margins or "buffers") were transposed into German law in an amendment to the Banking Act (KWG) and in supplementary regulations. Bank-specific capital requirements were also imposed on BMW Bank GmbH as part of the Supervisory Review and Evaluation Process (SREP). BMW Bank GmbH has adapted its processes and risk management to these requirements so as to appropriately manage and monitor material risks.

In addition, BMW Bank GmbH has routine monitoring procedures in place to identify changes in national and supranational regulatory requirements (e.g. SREP, MaRisk revision, Recovery and Resolution Act). The Bank assesses these as regards their relevance for BMW Bank GmbH and, where indicated, takes the necessary action to close compliance gaps.

In 2004, BMW Bank GmbH decided to request permission from the German Federal Financial Supervisory Authority (BaFin) to use the advanced internal ratings-based approach to determine the amount of capital required to cover its credit risks. As of December 31, 2017, approval had been obtained for using the Company's own estimates for the following portfolios: German customer financing (retail business asset class), German dealer financing (corporate asset class), German leasing business, and Spanish customer financing (both retail business asset class).

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

## 5 Information pursuant to § 289b HGB (Commercial Code)

BMW Bank GmbH is included in the consolidated financial statements of the BMW Group. On its website, the BMW Group publishes a sustainable value report in conformity with Directive 2013/34/EU.

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

To promote the holding of executive positions by women, a shareholder resolution was adopted on September 29, 2015, establishing for the first time targets for the number of seats held by women on the Management Board and the Supervisory Board of BMW Bank GmbH. The deadline for reaching the target expired on December 31, 2016. New targets were set by shareholder resolution on April 28, 2017: the target for the number of seats held by women on the Management Board and the Supervisory Board was fixed at one (one woman) on each board. A deadline of December 31, 2020, was fixed for achieving these targets.

On February 3, 2015, the Management Board of BMW Bank GmbH for the first time established targets for the number of women in the top two management echelons. The deadline for reaching the target expired on December 31, 2016. New targets were established by the Management Board on January 31, 2017: the target percentage is 8 % for women in the first management echelon and 30 % for women in the second management echelon. A deadline of December 31, 2020, was fixed for achieving these targets.

## 7 Outlook

In **Germany**, the number of new registrations of BMW AG vehicles in 2017 was slightly lower than in the previous year. Demand is expected to pick up again somewhat in 2018. Based on BMW AG's sales forecasts, BMW Bank GmbH expects the new retail business volume in Germany to increase slightly year-on-year, resulting in slight expansion of portfolio lending volume. Lending volume is expected to be stable in 2018 in the business segments dealer and importer financing. For credit risk purposes, no increase in defaults compared with last year is anticipated since the forecasts regarding GDP growth and the rate of employment remain positive.

There were mixed developments in the German used car market in 2017. Despite the diesel discussion, the price level for lease returns remained high compared with long-term averages and was within the range anticipated by BMW Bank. Slight deterioration of residual value occurred above all for diesel-powered vehicles in the portfolio due to the uncertainties surrounding the diesel issue, but there was in some cases significant improvement in the residual values of vehicles with gasoline engines. Average inventories of used vehicles in the dealer organization remained at last year's levels. There was, however, a perceptible increase in the number of idle days over last year's levels. Based on the forecasts made by Euro Tax Schwacke, the German used car market is expected to show stable development in 2018. However, in light of the aging product portfolio, BMW Bank GmbH anticipates somewhat lower residual values. Moreover, the discussion concerning possible driving bans means that uncertainties persist in the market.

With respect to interest rate trends, interest levels are expected to remain stable.

In all countries where **branches** are located, the overall economic situation improved somewhat in 2017, with GDP growth rates of +1.5 % in Italy, +2.6 % in Portugal, and +3.1 % in Spain. The overall economic trend had a positive impact both on new business volume and on the risk situation of the loan portfolios. The positive economic development in these countries is likely to continue in fiscal year 2018, although the pace of economic growth is expected to slacken somewhat. However, global political uncertainties, the as yet unforeseeable consequences of the Catalan declaration of independence in Spain, and problems in the Italian banking sector represent risk factors for further economic development. A stable credit risk situation on a par with last year is anticipated for 2018. Based on BMW AG's sales forecasts, BMW Bank

GmbH expects slight additional growth in new business volume in 2018 for the financing and leasing businesses in the branches. In dealer financing, average portfolio lending volume roughly on a par with last year is expected in Spain and Portugal, whereas in Italy a moderate decline in portfolio volume is likely considering the quite high average level of the previous year.

The refinancing strategy of **BMW Bank GmbH** will in the future continue to rely on the following instruments: deposits, ABS transactions, intra-Group loans, and, to a small extent, loans from banks.

Primarily because of one-time effects in 2017, in particular from residual value changes in the existing portfolio, and the anticipated growth in business, BMW Bank GmbH expects net operating income in fiscal year 2018, before additions to the fund for general banking risks pursuant to § 340g HGB, to be slightly above the level of the previous year. With respect to the financial and non-financial performance factors, BMW Bank accordingly anticipates a slight corresponding increase in return on equity. BMW Bank GmbH furthermore expects its new business volume and the volume of its lending portfolio to increase slightly. A moderate decline in the number of employees is to be expected since services outsourced to BMW Bank by the BMW Group will in the future again be performed in part by the BMW Group Financial Services division.

Munich, March 6, 2018

The Management

| | | | |
|---|---|---|---|
| [Signature] | [Signature] | [Signature] | [Signature] |
| Hans-Jürgen Cohrs | Gerald Holzmann | Dr.-Ing. Markus Walch | Thomas Weber |

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## Appendix to 2017 Management Report

## Report on Gender Equality and Equal Pay Pursuant to § 21 EntgTransG

### 1. Measures to promote equality between women and men and the impact of these measures

On 02/03/2015, the Management Board of BMW Bank GmbH for the first time established targets for the number of women in the top two management echelons beneath the Management Board. The target percentage for women in the first management echelon was set at 8 % and that for women in the second management echelon at 30 %. The deadline for reaching the target expired on 12/31/2016. The actual percentages for women as of 12/31/2016 were 6 % and 28 % respectively, thus falling short of both targets. Stable staffing levels and the relative lack of turnover in the two echelons immediately beneath the Management Board in 2015 and 2016 are the reasons why the targets were not reached.

In the calendar year 2016, the following measures to promote the equality of women and men were implemented:

- Workshop for managers "Unconscious Bias - make better decisions" to raise awareness for diversity
- Starting an internal training course for new managers called "The Human Resources Year" on the human resource processes and mechanisms of BMW Bank GmbH, with a separate "Diversity" module
- Beginning a monthly publication for managers called "Human Resource Knowledge in a Nutshell," published by the Human Resources department; the topics in 2016 included "Part-Time Employment" and "Job Notices, Transfer, Hiring"
- Conclusion of a workplace agreement on mobile working

Independent of the foregoing, all new managers have for years been required to attend a training course on the General Act on Equal Treatment (AGG), i.e. on types of disadvantagement, types of discrimination, and on their rights and duties, as well as a training course on interview techniques (standards for conducting job interviews, question-asking techniques, "Do's and Don'ts," possible bias and how to counteract it).

### 2. Measures to achieve equal pay for women and men

The human resources policy of "reward in return for performance" at BMW Bank GmbH means the following with respect to employee compensation:

1. Based on the requirements for the position as set forth in job descriptions, different functional levels are defined by means of job evaluation procedures. These form the basis for a differentiated structure for compensation and extra benefits.
2. Each employee's individual performance is assessed annually based on the requirements for the position and the agreed goals.
3. The employee's performance evaluation is the basis for adjusting his or her salary.

The compensation structure, the salary ranges, and merger into the salary ranges upon hiring or transfer are governed by workplace agreements. Employee compensation thus depends essentially on performance, work results, professional experience, and length of time in a position. Additional measures to achieve equal pay for women and men were accordingly not implemented.

The average number of employees of BMW Bank GmbH for the 2016 calendar year may be broken down as follows:

| | Full time | Part time | Total |
|---|---|---|---|
| Female | 456 | 152 | **608** |
| Male | 621 | 12 | **633** |
| **Total** | **1,077** | **164** | **1,241** |

Employees who were provided by BMW Bank GmbH to Alphabet Fuhrparkmanagement GmbH in 2016 under an intra-Group lending arrangement are not included.

# Report of the Independent Statutory Auditor

To BMW Bank GmbH, Munich

## Report on the Audit of the Annual Financial Statements and the Management Report

### Audit opinions

We have audited the annual financial statements of BMW Bank GmbH, Munich, (the "Bank") consisting of the balance sheet as of December 31, 2017, the income statement for the fiscal year from January 1 to December 31, 2017, and the notes to the financial statements including the accounting policies therein described. We have furthermore audited the management report of BMW Bank GmbH for the fiscal year from January 1 to December 31, 2017.

In our opinion, based on the findings of our audit,

– the attached annual financial statements comply in all material respects with the requirements applicable to financial institutions under German commercial law and provide a true and fair view, in accordance with German principles of proper accounting, of the net assets and financial position of the Bank as of December 31, 2017, and of the results of its operations for the fiscal year from January 1, 2017, to December 31, 2017, and

– the attached management report provides as a whole a suitable view of the Bank's position. This management report is consistent with the annual financial statements in all material respects, complies with the German statutory requirements, and suitably presents the opportunities and risks of future development.

In accordance with § 322 (3) sent. 2 clause 1 of the German Commercial Code (HGB), we declare that our audit has not led to any reservations regarding the compliance of the annual financial statements and the management report.

**Basis for the audit opinions**

We conducted our audit of the annual financial statements and the management report in accordance with § 317 HGB, the EU Statutory Audit Regulation (No. 537/2014; hereinafter the "EU Audit Reg."), and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibility under these provisions and principles is described in more detail in the section of our audit report entitled "Responsibility of the statutory auditor for auditing the annual financial statements and management report." We are independent of the Bank in accordance with both the European and the German rules and provisions of commercial law and ethical professional conduct and have fulfilled our other German professional obligations in accordance with these requirements. We furthermore declare in accordance with Article 10 (2) (f) EU Audit Reg. that we have provided no prohibited non-audit services within the meaning of Article 5 (1) EU Audit Reg. We are of the opinion that the audit evidence that we obtained provides a sufficient and suitable basis for our audit opinions on the annual financial statements and the management report.

**Particularly important audit matters in auditing the annual financial statements**

Particularly important audit matters are matters that we in our responsible discretion considered to be most significant for our audit of the annual financial statements for the fiscal year from January 1 to December 31, 2017. We took these matters into consideration when auditing the annual financial statements as a whole and forming our audit opinion; we express no separate audit opinion on these matters.

## Valuation of receivables from customers

*(see section B. of the Notes)*

THE RISK FOR THE FINANCIAL STATEMENTS

BMW Bank GmbH offers a number of different vehicle financing models to end customers, dealers, and importers. In this connection, short and long term receivables from customers totaling EUR 13,509.4 mill. after loan loss impairments are shown as of the reporting date.

Because of the many value-influencing factors, such as risk classification and the determination of default probabilities and loss ratios, the calculation of loan loss impairments involves the exercise of considerable discretion.

For the financial statements, a risk exists of misjudging the creditworthiness of dealers, importers, and end customers, incorrectly estimating the loss ratios, and making errors when determining the risk allowance parameters, with the result that a necessary impairment of receivables from customers is not reflected at all or not in an adequate amount.

### PROCEDURE FOLLOWED IN OUR AUDIT

Among other things by posing questions and inspecting internal calculation methods and analyses, we gained an extensive understanding of the development of the loan portfolios, the associated risks related to credit default, and the business processes for identifying, managing, monitoring, and assessing credit default risks.

We audited the adequacy and effectiveness of the internal control system, in particular with respect to the procedures for risk classification and loan loss impairment. We also assessed the relevant IT systems and internal operations. In addition to having our IT specialists examine the appropriateness of the affected systems and related interfaces to ensure the completeness of the data, we also reviewed automated data processing controls.

A central component of our audit was an assessment of the adequacy of the risk classification procedures and the risk allowance parameters used, which are derived from historic default probabilities and loss ratios. In this connection, we in particular analyzed the process of periodically validating the risk allowance parameters. We also determined to our satisfaction by means of selectively chosen individual cases that the criteria indicating allocation to particular risk classes were in fact present in each case. Regarding the calculation of loan loss impairments applying the parameters that have been defined for these risk classes, we examined the calculational logic in the pertinent IT systems.

### OUR CONCLUSIONS

Proper procedures are used to determine loan loss impairments to receivables from customers. The assumptions and parameters employed in these calculations are as a whole appropriate.

## Valuation of leased assets

*(see section B. of the Notes)*

### THE RISK FOR THE FINANCIAL STATEMENTS

BMW Bank GmbH rents vehicles to end customers. The stated value of leased assets at the reporting date is EUR 8,795.3 mill. The residual values anticipated at the end of the terms of the leasing contracts are a key variable that must be estimated for subsequent valuation purposes.

The estimation of future residual values is complex and requires the exercise of discretion because of the volume of the data employed in the determination and the large number of assumptions that must be made. For its residual value forecasts, BMW Bank relies on both internally available data on historical experience and on current market data. The forecasts of external market research institutes are also taken into consideration.

For the financial statements, a risk exists that the residual values anticipated at the end of the contract term may not have been appropriately estimated and that necessary impairment losses or reversals of prior writedowns of leased assets may be accounted for too late or in inadequate amounts.

PROCEDURE FOLLOWED IN OUR AUDIT

Among other things by posing questions and inspecting internal risk reports, vehicle sale proceeds analyses, and process and method descriptions, we gained an understanding of the development of leased assets, the underlying residual value risks, and the business processes for identifying, managing, monitoring, and assessing residual value risks.

We reviewed the adequacy and effectiveness of the internal control system, in particular with respect to the determination of the anticipated residual values. This involved assessing the internal operations and the control mechanisms in place as well as having our IT specialists examine the appropriateness of the relevant IT systems and the interfaces these contain.

Using the validations carried out by BMW Bank, we furthermore evaluated the adequacy of the forecasting procedures and valuation models, the assumptions relied on in these models, and the parameters employed to determine residual values. For this purpose, we questioned the BMW Bank experts concerned with managing and monitoring residual value risks and examined the internal analyses of residual value developments and residual value forecasts as well as the validation results. We also assessed the procedures for processing external forecasting data from market research institutions.

OUR CONCLUSIONS

The valuation is based on proper procedures for determining the anticipated residual values of leased assets. The assumptions and parameters employed in the forecasting model to determine residual values are as a whole appropriate.

**Other information**

Responsibility for other information rests with the [Bank's] legal representatives. Other information comprises:

– the non-financial declaration pursuant to § 289b HGB and

– the corporate governance declaration pursuant to § 289f HGB

Our audit opinions regarding the annual financial statements and the management report do not extend to the other information, and we accordingly express no audit opinion or any other form of audit conclusion with respect thereto.

In connection with our audit, we have the responsibility of reading the other information and assessing whether it

– contains material discrepancies compared with the annual financial statements, the management report, or the information we acquired during the audit, or
– appears to be incorrectly presented in some other way.

**Responsibility of the legal representatives and the Supervisory Board for the annual financial statements and the management report**

The [Bank's] legal representatives are responsible for preparing the annual financial statements so that they comply in all material respects with the requirements applicable to financial institutions under German commercial law and provide a true and fair view, in accordance with German principles of proper accounting, of the Bank's net assets, financial position, and results of operations. The legal representatives are moreover responsible for the internal controls that they have determined to be necessary in accordance with the German principles of proper accounting to enable the preparation of annual financial statements that are free of material misstatements, whether intentional or unintentional.

In preparing the annual financial statements, the legal representatives are responsible for assessing the Bank's ability to continue as a going concern. They are also have a responsibility to report any relevant matters in connection with continuation as a going concern. They are moreover responsible for preparing the annual financial statements on a going concern basis unless factual or legal conditions preclude this.

The legal representatives are moreover responsible for preparing a management report that provides as a whole a suitable view of the Bank's position, is consistent with the annual financial statements in all material respects, complies with the German statutory requirements, and suitably presents the opportunities and risks of future development. The legal representatives are moreover responsible for the arrangements and measures (systems) that they have deemed necessary in order to prepare the management report in accordance with the applicable provisions of German law and to be able to furnish sufficient suitable evidence supporting the statements in the management report.

The Supervisory Board is responsible for monitoring the Company's accounting process for preparing the annual financial statements and the management report.

**Responsibility of the statutory auditor for auditing the annual financial statements and management report**

Our objective is to determine with reasonable assurance whether the annual financial statements as a whole are free of – intentional or unintentional – material misstatements and whether the management report provides as a whole a suitable view of the Company's position, is consistent in all material respects with the annual financial statements and the information obtained in the course of the audit, complies with the German statutory requirements, and suitably presents the opportunities and risks of future development; having made such determinations, we then issue an audit report containing our audit opinions on the annual financial statements and management report.

While reasonable assurance is a high degree of assurance, it does not guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation in compliance with the generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors (IDW) will in all cases discover a material misstatement. Misstatements can result from [compliance] violations or inaccuracies and are considered to be material when they may reasonably be expected, either individually or in combination, to influence the economic decisions made by stakeholders on the basis of the annual financial statements and the management report.

During the audit, we exercise responsible discretion and maintain an attitude of professional skepticism. Furthermore:

– We identify and assess the risks of – intentional or unintentional – material misstatements in the annual financial statements and the management report, plan and implement audit procedures in response to these risks, and obtain audit evidence that provides a sufficient and suitable basis for our audit opinions. The risk that material misstatements will not be discovered is greater in the case of [compliance] violations than for inaccuracies since violations may involve fraudulent conspiracy, forgeries, deliberate incompleteness, misleading representations, or disabling internal controls.

– We obtain an understanding of the internal control systems that are relevant for auditing the annual financial statements and the arrangements and measures that are relevant to auditing the management report so as to plan audit procedures that are appropriate under the given circumstances, however not with the objective of expressing an audit opinion on the effectiveness of these Bank systems.

– We assess the appropriateness of the accounting methods applied by the legal representatives as well as the reasonableness of the figures they have estimated and the information related to these figures.

- We draw conclusions as to the appropriateness of the going concern financial reporting framework that has been applied by the legal representatives as well as to whether, based on the audit evidence obtained, any material uncertainty exists relating to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. Should we conclude that a material uncertainty exists, we are obligated in the audit report to identify the related information in the annual financial statements and in the management report or, if such information is inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained as of the date of our audit report. Future events or conditions may, however, render the Bank incapable of continuing any longer as a going concern.
- We assess the overall presentation, the structure, and the content of the annual financial statements including the information as well as whether the annual financial statements present the underlying transactions and events so as to provide a true and fair view of the Bank's net assets, financial position, and results of operations in compliance with the German principles of proper accounting.
- We assess the consistency of the management report with the annual financial statements, its compliance with the law, and the view of the Bank's position that it provides.
- We carry out audit procedures concerning the future-oriented information that the legal representatives present in the management report. In particular, we verify on the basis of sufficient and suitable audit evidence the plausibility of the significant assumptions on which the legal representatives based the future-oriented information and assess whether the future-oriented information may be legitimately inferred from these assumptions. We express no separate audit opinion on the future-oriented information or on the underlying assumptions. There is a considerable unavoidable risk that future events will differ materially from the future-oriented information.

With the persons responsible for monitoring, we discuss, among other things, the planned scope of the audit and its scheduling as well as significant audit findings, including any deficiencies in the internal control system that we note in the course of our audit.

We provide a statement to the persons responsible for monitoring that we have complied with all relevant independence requirements and we discuss with these persons all relationships and other matters that may be reasonably assumed to have an effect on our independence as well as the protective measures implemented in each case.

From the matters that we discussed with the persons responsible for monitoring, we determine those matters that had the greatest significance in auditing the annual financial statements for the current reporting period and therefore constitute particularly important audit matters. We describe these matters in the audit report unless statutes or other legal provisions preclude the matter's public disclosure.

## Other statutory and legal requirements

**Other information pursuant to Article 10 EU Audit Reg.**

We were commissioned by the Supervisory Board on April 29, 2017. We have served as the statutory auditor of BMW Bank for more than 30 years without interruption.

We confirm that the audit opinions contained in this audit report are consistent with the additional report to the audit committee pursuant to Article 11 EU Audit Reg. (audit committee report).

## Public Auditor Responsible

Mr. Konrad Göller is the public auditor (Wirtschaftsprüfer) responsible for the audit.

Munich, March 19, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft


| | |
|---|---|
| [ Signature ] | [ Signature ] |
| Göller | Ruoff |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| [German Public Auditor] | [German Public Auditor] |

**Certified Translation from the German Language**

## 2017 Annual Financial Statements of BMW Bank GmbH

### Translator's Certificate of Accuracy and Completeness

In my capacity as generally authorized translator and interpreter of the English language for the courts and notary publics in the State of Hesse, Federal Republic of Germany, I certify the accuracy and completeness of the above translation from the German language. The translation consists of 55 pages, this certification page, and an introductory cover sheet. The German language text, consisting of 58 pages, three of which are blank, from which I prepared this translation, was provided to me in as a PDF file and is attached hereto as a black-and-white printout from this file.

William Bader
allg. erm.
im Lande Hessen
Übersetzer der engl. Sprache

William Bader

Kleine Schmieh 58
Oberursel, Germany, 28 June 2017