ANNUAL REPORT 2016

BMW FINANCE N.V.

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GO 7/4/2017
MAZARS PAARDEKOOPER HOFFMAN ACCOUNTANTS N.V.
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Contents

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BMW Finance N.V.

Directors' Report

Dear Ladies and Gentlemen,

BMW Finance N.V. (the "Company") was incorporated in the Netherlands and is a wholly owned subsidiary of BMW Holding B.V. who in turn is a wholly owned subsidiary of BMW Intec Beteiligungs GmbH, a wholly owned subsidiary of BMW AG. Since 1 January 2005 BMW Finance N.V. is part of the fiscal unity for corporate income tax together with the BMW Group companies located in the Netherlands. The purpose of the Company is to assist the financing of business activities conducted by companies of the BMW Group and its affiliates and to provide financial services in connection therewith. The core business of the Company comprises mainly financing BMW Group companies that are priced in accordance with the "at arm's length" principle.

The Company's activities mainly consist of providing long-term liquidity and intercompany funding for BMW Group companies. The Company's aim is to minimize the connected market risk, especially interest rate risk and liquidity risk associated with financial instruments. Firstly, protection against such risks is provided by so-called natural hedges that arise when the values of non-derivative financial assets and liabilities have matching maturities, amounts (netting), and other properties. Derivative financial instruments are used, such as interest rate swaps, foreign exchange swaps and forward rate agreements to reduce the risk remaining after taking into account the effects of natural hedges. With regard to interest rate risk, the entity implemented successfully the financial strategy of the BMW Group. To improve its forward looking liquidity risk management even further, an encompassing analysis of the economic and capital markets environment of the euro area was developed and implemented.

The Company has aligned its internal control and risk management system aimed at the financial reporting process in accordance with BMW Group policy. Risk reporting is based on an integrated risk management approach. The risk management process comprises the early identification of risks and opportunities, their measurement and the use of suitable instruments to manage and monitor risks. The risk management system comprises a wide range of organisational and methodological components that are all finely tuned to each other. The Company has established an encompassing reporting system that provides decision makers with comprehensive, up-to-date information and insights into developments with regard to the capital markets. Risk management is viewed as a continuous process, given the fact that changes in the legal, economic or regulatory environment or those within the Company itself could lead to new risks or to recognised risks being differently assessed. Standardised rules and procedures consistently applied throughout the BMW Group form the basis for an organisation that is permanently learning. By regularly sharing experiences with other companies, we ensure that innovative ideas and approaches flow into the risk management system and that risk management is subjected to continual improvement. Regular basic and further training as well as information events are invaluable ways of preparing employees for new or additional requirements with regard to the processes in which they are involved.

Overall risk management within the BMW Group is managed centrally and reviewed for appropriateness and effectiveness by the BMW Group's internal audit department. The integration and optimisation of processes have reduced operational risk. At present, no risks have been identified which could threaten the going concern status of the Company or which could have a materially adverse impact on the net assets, financial position or results of operations of the Company. The main categories of risk for the other operating segments are credit and counterparty default risk, currency risk, interest rate risk, liquidity risk and operational risk. In order to evaluate and manage these risks, a variety of internal methods have been developed based on regulatory environment requirements (such as Basel II) and which comply with national and international standards.

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Please refer to the BMW Group's financial statements for more detailed information.

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

The Company's balance sheet total decreased with euro 1,026 million (-2.89%) to stand at euro 34,475 million at 31 December 2016. The main factor of the decline in assets of the balance sheet was the decrease in the current and non-current receivables from BMW Group companies (to euro 32,766 million, -3.1%). This decrease is mainly due to a restructuring of financing in Great Britain. The decrease in the equity and liabilities of the balance sheet was mainly due to the debt securities (to euro 27,636 million, -1.8%), and the liabilities due to BMW Group Companies (to euro 3,992 million, -8.5%).

The Net income of the Company shows a profit of euro 7.1 million (2015: net profit of euro 24.8 million). The main drivers of the result were an interest profit of euro 22.1 million (2015: profit of euro 24.5 million) and a negative result of the financial instruments which resulted in a loss of 11.2 euro million (2015: loss of euro 3.3 million).

The interest margin decreased to euro 22.1 million (2015: euro 24.5 million) due to declining interest rates and received liquidity fee. The cost of liquidity, due to structural overfunding, and the maturity mismatch on the total portfolio both negatively impact the net interest margin. Therefore the Company received from BMW AG a liquidity fee of euro 55.6 million (2015: euro 36.7 million). The liquidity fee increased significantly due to a received early termination fee on a loan of euro 25.0 million in 2015.

The Euro Medium Term Note ("EMTN") Program of euro 50.0 billion has been together with the euro 5.0 billion Multi Currency Commercial Paper Program successfully used during 2016 to refinance BMW Group companies. Under the EMTN Program, BMW Finance N.V. issued 39 new debt securities (2015: 27 new debt securities) with a nominal amount of euro 7.5 billion (2015: euro 7.0 billion). The net proceeds have been used for general BMW Group financing purposes. During the year the Company redeemed 43 EMTN's (2015: 27 EMTN's) with a nominal amount of euro 6.5 billion (2015: euro 4.1 billion). The funding volume will according to our most recently updated financial planning increase in 2017 in comparison to 2016. The funding requirements are caused by maturing debt and growth in financial assets by BMW Group entities.

The world's major economies still face many structural flaws and policy constraints that hinder more investment and faster productivity growth, making the medium-term outlook for a significantly faster path of global growth more uncertain. The gross domestic product (GDP) is generally expected to slightly grow from approximately 2.6% in 2016 to around 2.9% in 2017. The GDP of the euro area is, increased political risks, decreasing from approximately 1.8% (2016) to around 1.6% in 2017.
Abrupt introduction of tightened new laws and regulations represents a significant risk for the automobile industry, particularly in relation to emissions, safety and consumer protection, as well as taxes on vehicle purchases and use. Country- and sector-specific trade barriers can also change at short notice. Unfavourable developments in any of

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these areas can necessitate significantly higher levels of investments and ongoing expenses of influence customer behaviour. Risks from changes in legislation and regulatory requirements could have a low impact on earnings over the two-year assessment period. The risk level attached to these risks is classified as medium.

Per 15th of January 2017 the Company has signed a factoring agreement with BMW AG and BMW Motoren GmbH for taking over receivables. This is a new business line for the Company. A significant profit related to these factoring services is expected.

In the light of the environment discussed above and the new business activity in 2017, the Company believes that overall it will have a better performance in the financial year 2017.

During 2016 the Company employed 10 people (2015: 10 people).

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

The Hague, 7 April 2017

A. Rost

F. Altmann	A. Rost	G. Ramcharan
Director	Managing Director	Financial Director

Report of the Supervisory Board

Dear Ladies and Gentlemen,

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BMW Finance N.V.

In December 2014 BMW Finance N.V. established the Supervisory Board. The Supervisory Board has been represented by three members: Norbert Mayer, Neil Fiorentinos and Thomas Sieber. In March 2017 Norbert Mayer resigned as member of the Supervisory Board of BMW Finance N.V. The Shareholder of the Company is currently in process to appoint a new Supervisory Board member.

The Company has taken notice of the Dutch Act on Management/Supervisory Board. The members of the board will continue to be selected on the basis of their experience, knowledge and background. The successor will be hired based upon qualifications for the job.

The Company's balance sheet total decreased to euro 34,475 million (euro -1,026 million) at 31 December 2016. The Net income of the Company shows a profit of euro 7.1 million (2015: net profit of euro 24.8 million). The main drivers of the result were an interest profit of euro 22.1 million and a negative result of the financial instruments which resulted in a loss of 11.2 euro million (2015: loss of euro 3.3 million).

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

The 2016 Annual Report of BMW Finance N.V. is prepared and authorised for issue by the Board of Directors on 7 April 2017 and will be submitted for approval to the Annual General Meeting of Shareholders on 4 July 2017.

The Hague, 7 April 2017

N. Fiorentinos
Deputy Chairman

T. Sieber
Deputy Chairman

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BMW Finance N.V.

Statement of Profit and Loss and other comprehensive income

in euro thousand	Note	2016	2015
Interest income BMW Group companies		440,649	469,267
Interest income Third parties		248,112	270,599
Interest income	[2]	688,761	739,866
Interest expense BMW Group companies		(69,295)	(77,942)
Interest expense Third parties		(597,401)	(637,462)
Interest expense	[2]	(666,696)	(715,404)
Interest margin		22,065	24,462
Other financial income and expenses	[3]	(114)	11,376
Result from financial transactions	[4]	(11,213)	(3,282)
Financial result		10,738	32,555
Miscellaneous income & expenses	[5]	(1,300)	(1,172)
Income before taxation		9,438	31,383
Taxes	[6]	(2,328)	(6,556)
Net income / (loss)		7,110	24,827
Other comprehensive income:			
Will be reclassified subsequently to profit and loss			
Effective portion of changes in fair value of cash flow hedges		-	1,535
Deferred tax on other comprehensive income		-	(384)
Other comprehensive income for the period after tax		-	1,151
Total comprehensive income for the period		7,110	25,978
Basic and diluted earnings per share of common stock in euro			
From profit for the year		2,031	7,093

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BMW FINANCE N.V.

Balance Sheet at 31 December

Assets in euro thousand	Note	2016	2015
Receivables from BMW Group companies	[8]	11,644,860	10,682,869
Marketable securities	[9]	116,963	219,764
Derivative assets	[21]	965,690	1,114,106
Non-current assets		12,727,513	12,016,739
Receivables from BMW Group companies	[8]	21,121,300	23,136,866
Marketable securities	[9]	30,071	-
Derivative assets	[21]	595,295	334,270
Tax receivables	[10]	877	372
Interest receivables and other receivables	[11]	159	1,177
Cash and cash equivalents	[12]	-	12,214
Current assets		21,747,702	23,484,899
Total assets		34,475,215	35,501,638

BMW FINANCE N.V.

Balance Sheet at 31 December

Equity and liabilities in euro thousand	Note	2016	2015
Issued capital	[13]	1,750	1,750
Share premium reserve	[14]	55,488	55,488
Retained earnings		64,928	40,101
Undistributed income		7,110	24,827
Equity		129,276	122,166
Debt securities	[16]	21,018,889	19,797,254
Loans due to banks	[17]	1,794,026	1,301,141
Derivative liabilities	[21]	302,233	400,406
Non-current liabilities		23,115,148	21,498,801
Debt securities	[16]	6,616,799	8,335,887
Loans due to banks	[17]	99,978	599,996
Liabilities due to BMW Group companies	[18]	3,992,271	4,361,041
Derivative liabilities	[21]	262,714	300,295
Interest payables and other liabilities	[19]	259,029	283,452
Current liabilities		11,230,791	13,880,671
Total equity and liabilities		34,475,215	35,501,638

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BMW FINANCE N.V.

Cash Flow Statement

in euro thousand		2016	2015
Net income for the year		7,110	24,827
Adjustments for non-cash items			
Hedging Reserve		-	1,151
Fair value measurement losses/(gains)		9,561	3,804
Taxes		(505)	384
Amortisation financial instruments		8,971	(33,414)
Changes in operating assets and liabilities			
Receivables from BMW Group companies		1,053,572	(3,489,978)
Receivables and other assets		1,020	29,851
Derivatives		(311,627)	(45,468)
Debt securities		(452,720)	2,285,682
Loans due to banks		(7,134)	346,952
Liabilities to BMW Group companies		(366,771)	966,328
Other liabilities		(24,421)	(23,589)
Cash flow from operating activities		(84,944)	66,530
Acquisition of marketable securities	[9]	-	(55,591)
Proceeds from sale of marketable securities	[9]	72,730	
Cash flow from investing activities		72,730	(55,591)
Cash flow from financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		(12,214)	10,939
Cash and cash equivalents at January 1		12,214	1,275
Cash and cash equivalents at December 31	[12]	-	12,214

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Statement of Changes in Equity

in euro thousand	Issued Capital	Share premium reserve	Hedging reserves	Retained earnings	Undistributed income	Total
1 January 2015	**1,750**	**55,488**	**(1,151)**	**20,980**	**19,121**	**96,188**
Total result 2015 recognised in the profit and loss account	-	-	-	-	24,827	**24,827**
Other comprehensive income for 2015	-	-	1,151	-	-	**1,151**
Total comprehensive income in the period	-	**-**	**1,151**	**-**	**24,827**	**25,978**
Appropriation of results 2014	-	-	-	19,121	(19,121)	-
31 December 2015	1,750	55,488	-	**40,101**	24,827	122,166
Total result 2016 recognised in the profit and loss account	-	-	-	-	**7,110**	**7,110**
Other comprehensive income for 2016	-	-	-	-	-	-
Total comprehensive income in the period	-	-	-	-	**7,110**	**7,110**
Appropriation of results 2015	-	-	-	24,827	(24,827)	-
31 December 2016	**1,750**	**55,488**	**-**	**64,928**	**7,110**	**129,276**

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Reporting entity

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

During the year the Company employed 10 persons (2015: 10). The Company has a Supervisory Board, which was appointed in December 2014 and exists of 3 members. In March 2017 Norbert Mayer resigned as member of the Supervisory Board of BMW Finance N.V. The Shareholder of the Company is currently in process to appoint a new Supervisory Board member.

Statement of compliance

The financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union and issued by the International Accounting Standards Board (IASB) and with Part 9 of Book 2 of the Dutch Civil Code.

The 2016 Annual Report of BMW Finance N.V. is prepared and authorised for issue by the Board of Directors on 7 April 2017 and will be submitted for approval to the Annual General Meeting of Shareholders on 4 July 2017.

Solvency

Given the objectives of the Company, the Company is economically interrelated with the ultimate holding company, BMW AG, Germany. In assessing the solvency and general risk profile of the Company, the solvency of the BMW Group as a whole, headed by BMW AG, needs to be considered.

Basis of preparation

Functional and presentation currency

The financial year contains the period from 1 January to 31 December. The financial statements are presented in euro which is the Company's functional currency. Items included in the financial statements are measured using the currency of the primary economic environment in which BMW Finance N.V. operates. All financial information presented in euro has been rounded to the nearest thousand, unless otherwise stated in the notes.

Basis of measurement

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

Financial assets and liabilities are measured at their fair value:

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

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

Use of estimates and judgements

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

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

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

For the valuation of financial instruments the most significant assumptions and estimates relate to the interest rates and expected cash flows used in the valuation models (note 21).

Changes in accounting policies

(a) Financial reporting rules applied for the first time in the financial year 2016
The following Standards, Revised Standards, Amendments and Interpretations were applied for the first time in the financial year 2016:

Standard	Interpretation	Date of issue by IASB	Date of mandatory application IASB	Date of mandatory application EU
IAS 1	Presentation of Financial Statements (Initiative to Improve Disclosure Requirements – Amendments to IAS 1)	18.12.2014	1.1.2016	1.1.2016

The Amendments to IAS 1 (Presentation of Financial Statements) relate primarily to clarifications concerning the presentation of, and disclosure in, financial statements. The amendments emphasise the principle that it is only necessary to disclosure information if it is material for users of the financial statements, even in cases where specific

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disclosures in IFRS are explicitly defined as minimum requirements. In this context, the Company has examined the contents of the Notes to the Company's Financial Statements and the Combined Director's Report and applied the principle of materiality in the Company's financial statements for the year end 31 December 2016, mainly by revising the presentation and eliminating redundancies.

(b) Financial reporting pronouncements issued by the IASB that are significant for the Company, but not yet applied:

Standard	Interpretation	Date of issue by IASB	Date of mandatory application IASB	Date of mandatory application EU
IFRS 9	Financial Instruments	24.7.2014	1.1.2018	1.1.2018

IFRS 9 (Financial Instruments) contains new requirements for the classification and measurement of financial assets that are based on the reporting entity's business model and its contractual cash flow characteristics ("Solely Payments of Principal and Interest" (SPPI) criterion).

IFRS 9 also gives rise to a new model for determining impairment based on expected credit losses. Furthermore, the requirements for hedge accounting were revised with the aim of bringing the accounting treatments more into line with the reporting entity's risk management activities.

The impact of adoption of IFRS 9 on the Company's financial statements is currently being investigated. Based on the analyses to date, the accounting treatment for specific financial assets that do not comply with the stipulated cash flow criteria may have to be changed, by reclassifying them from the "measured at amortised cost" category to the "measured at fair value" category. Based on the current assessment, the change would only affect a limited volume of the marketable securities with the consequence that the impact on measurements is not expected to be material.

The overall impact of the expected credit losses are expected not to be significant, since all receivables from BMW Group companies are guaranteed by BMW AG when the aggregated losses on these receivables exceed euro 2 million.

As far as the accounting for hedging relationships is concerned, analyses to date indicate that no major changes are expected.

IFRS 9 contains a requirement that it should be applied retrospectively for classification and measurement, whereas the new rules for hedge accounting are generally required to be applied prospectively. The Company intends to apply the exception granted by the standard not to restate comparatives for earlier periods for classification and measurement (including impairment).

Apart from the above-mentioned other new standards/amendments and interpretations have been passed by the IASB, but they are not expected to have any material impact on the net assets, financial position and results of operations of the Company.

1. Significant accounting policies

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

Foreign currency

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

Financial result

The financial result comprises the Interest margin, Other financial income and expenses and the Result from financial transactions. The Interest margin is the difference between interest income and interest expenses. The interest income comprises interest income on funds invested. Interest expenses include interest expense on borrowings. Interest income and expense is recognised as it accrues in profit or loss, using the effective interest method. Other financial income and expenses cover the exchange rate differences of the assets and liabilities in foreign currency. Foreign currency gains and losses are reported on a net basis. The Result from financial transactions include changes in the fair value of financial assets at fair value through profit or loss and gains and losses on hedging instruments that are recognised in profit or loss.

Dividends

Dividends proposed by the Board of Directors are not recorded in the financial statements until the Annual General Meeting of Shareholders has approved the proposal. Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established.

Income tax

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

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

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

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

Employee benefits

According to IAS 19.34 obligations for contributions to the defined benefit pension plan ("Group plan") sponsored by BMW Nederland B.V. are accounted for as if they are a defined contribution plan and are recognised as an expense in the income statement when they are due. New hires as from 1 January 2014 participate in a defined contribution plan.

The employee benefits are presented in note 20.

Earnings per share

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

Financial instruments

Categories of financial assets

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

- loans and receivables; and
- financial assets at fair value through profit and loss.

Recognition and derecognition

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

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

Measurement

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

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

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

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

Determination of fair value

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based, for the methods used see note 21. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Non-derivative financial assets

The Company initially recognises loans and receivables and deposits on the date that they are originated. The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise receivables from BMW group companies, trade and other receivables, marketable securities and cash and cash equivalents. Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest and relevant credit spreads at the reporting date.

The marketable securities in the portfolio of the Company are not quoted in an active market, the Company has the intention to hold the securities to maturity. The marketable securities are classified as loans and receivables. Given the risk profile of the investment, the credit enhancements and the expectation that the investment will be fully reimbursed included the interest payments, the investment is shown in the balance sheet at amortised costs.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. The Company is holder of the Euro cash pool. The form of the Euro cash pool is zero-balancing where all account balances are automatically transferred to one control account held by the Company. Funds moving into this account create intercompany loans between the Company and the Euro cash pool participants.

Non-derivative financial liabilities

The Company initially recognises debt securities issued on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

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

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Derivative financial instruments and hedging activities

On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

The Company discontinues hedge accounting prospectively when the hedge no longer meets the criteria for hedge accounting.

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Interest rate and currency swaps are valued by using discounted cash flow models. This method implements the discounting of future cash flows using yield curves of the cash flows currency and relevant credit spreads. The changes in the fair values of these contracts are reported in the income statement. Fair value changes arising on cash flow hedges, to the extent that they are effective, are recognised directly in equity.

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

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

When the Company holds derivative financial instruments due to risk management policies, but no hedge accounting can be applied in line with IAS 39, then all changes in its fair value are recognised immediately in profit or loss.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount accumulated in the other comprehensive income is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified in profit or loss.

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Fair value hedges
Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognised in profit or loss. The hedged item also is stated at fair value in respect of the risk being hedged; the gain or loss attributable to the hedged risk is recognised in profit or loss with an adjustment to the carrying amount of the hedged item.

The Company discontinues hedge accounting prospectively when the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from a discontinued hedge is amortised to profit or loss. Amortisation begins as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. The adjustment is based on a recalculated effective interest rate at the date the amortisation begins.

Impairment

Financial assets
In accordance with IAS 39 (Financial Instruments: Recognition and Measurement), assessments are made regularly as to whether there is any objective evidence that a financial asset or group of assets may be impaired.

Impairment losses identified after carrying out an impairment test are recognised as an expense. With the exception of derivative financial instruments, all receivables and other current assets relate to loans and receivables which are not held for trading. All such items are measured at amortised cost. Receivables with maturities of over one year which bear no or a lower than market interest rate are discounted. Appropriate impairment losses are recognised to take account of all identifiable risks. Impairment losses are recognised in profit or loss.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The reversal is recognised in profit or loss

Non-financial assets
The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Share capital

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

Statement of cash flows

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

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

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

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

Segment reporting

Per IFRS 8 the Company is required to disclose segmental information of its performance. All interest income are derived through trading with entities that are owned and controlled by BMW AG which, in accordance with IFRS 8, due to the activities of the Company, only one operating segment could be identified.

2. Interest income and expense

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

in euro thousand	2016	2015
Interest income on financial assets at amortised cost	362,392	435,790
Interest income on financial assets included in a fair value hedge relationship	322,199	298,372
Interest income on derivatives fair value not included in a hedge relationship	4,170	5,704
Interest income	688,761	739,866
Interest expense on financial liabilities at amortised cost	(73,249)	(130,247)
Interest expense on financial liabilities included in a fair value hedge relationship	(428,067)	(428,402)
Interest expense on derivatives at fair value not included in a hedge relationship	(165,380)	(156,755)

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Interest Expense	**(666,696)**	**(715,404)**
Interest margin	**22,065**	**24,462**

Interest income and expense (paid and accrued interest) are recognised in the income statement using the effective interest method. Assets and liabilities at fair value stem from financial derivative instruments. Non-derivative financial instruments are measured at amortised cost. The carrying amount is adjusted for the changes in the value of the hedged risks when the instrument is included in a fair value hedge relationship. Fair value movements are not presented under interest income and expense, but under result from financial transactions (see note 4).

The cost of liquidity, due to structural overfunding, and the maturity mismatch on the total portfolio both negatively impact the net interest margin. The Company received from BMW AG a liquidity fee of euro 55.6 million (2015: euro 36.7 million) to incorporate the maturity mismatch on the portfolio. The liquidity fee increased significantly due to a received early termination fee from early redeemed loans of UK Capital plc. of euro 25.0 million in 2015. The liquidity fee is presented as interest income on financial assets at amortised cost.

3. Other financial income and expenses

The item comprises a gain of euro 0.1 million (2015: gain of euro 11.4 million) due to exchange rate differences related mainly to the funding of BMW Group Companies in the United Kingdom in GBP. All other positions in foreign currencies are fully hedged through natural hedges or hedged with the use of derivatives.

4. Result from financial transactions

in euro thousand	2016	2015
Ineffective portion of instruments included in a hedge relationship	(14,529)	(2,278)
Revaluation of derivatives not included in a hedge relationship	3,316	(1,004)
Total	(11,213)	(3,282)

The revaluation of derivatives not included in a hedge relationship is mainly related to interest rates swaps to hedge the portfolio of fixed rate receivables from BMW Group companies (see note 22). The result from financial transactions decreased significantly due to decreased interest rates at the end of 2016.

5. Miscellaneous income & expenses

in euro thousand	2016	2015
Salaries & social security charges	(799)	(732)
Pension costs – defined contribution plan	(18)	(14)
Pension costs – defined benefit plan	(74)	(87)
Advisory cost	(281)	(209)
Other miscellaneous income & expenses	(128)	(130)
Total	(1,300)	(1,172)

With reference to Section 2:382a (1) and (2) of the Netherlands Civil Code, the following fees for the financial year have been charged by MAZARS PAARDEKOOPER HOFFMAN Accountants N.V. to the Company:

in euro thousand	2016	2015

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Statutory audit of annual accounts	73	-
Other audit services	-	-
Tax advisory services	-	-
Other non-audit services	-	-
Total	73	-

The fees charged by MAZARS PAARDEKOOPER HOFFMAN Accountants N.V are presented as advisory cost. In 2016 the statutory auditor PWC Accountants N.V. is replaced by MAZARS PAARDEKOOPER HOFFMAN Accountants N.V. In 2015 the following fees for the financial year have been charged by PricewaterhouseCoopers Accountants N.V to the Company:

In euro thousand	2016	2015
Statutory audit of annual accounts	-	149
Other audit services	-	19
Tax advisory services	-	-
Other non-audit services	-	-
Total	-	168

The fees charged by PricewaterhouseCoopers Accountants N.V are presented as advisory cost.

6. Taxes

Income taxes comprise the following:

In euro thousand	2016	2015
Current tax income/(expense)	(2,328)	(6,556)
Deferred tax income/(expense)	-	-
Total tax income/(expense) in income statement	**(2,328)**	**(6,556)**

Reconciliation of the effective tax rate:

In euro thousand	2016		2015
Income before tax	9,438		31,383
Income tax using the domestic corporate tax rate	(2,359)	25%	(7,846)
Tax benefit relating to other periods	32		1,290
Total tax income/(expense) in income statement	(2,328)		(6,556)
Effective tax rate	24,7%		20.9%

BMW Finance N.V., a member of the fiscal unity headed by BMW Holding B.V., is jointly and severally liable for the payment of any tax liability of the fiscal unity. The following companies are part of the fiscal unity per 31 December 2016:

- BMW Holding B.V. (head of the fiscal unity)

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- BMW Finance N.V.
- BMW Retail Nederland B.V.
- BMW Amsterdam B.V.
- BMW Den Haag B.V.
- BMW Nederland B.V.
- BMW Financial Services B.V.
- BMW International Investment B.V.
- BMW I Ventures B.V.
- Alphabet Nederland B.V.
- BMW International Holding B.V.

7. Remuneration of Board of Directors

In 2016, the remuneration of the Board of Directors amounted euro 0.5 million (2015: euro 0.5 million). This remuneration consists periodic remuneration and bonuses plus other remuneration:

in euro thousand	31.12.2016	31.12.2015
Periodic remuneration	343	372
Bonuses	120	111
Other remuneration	70	69
Total remuneration of Board of Directors	533	552

8. Receivables from BMW Group companies

in euro thousand	31.12.2016	31.12.2015
Non-current from BMW Group companies	11,644,860	10,682,869
Current receivables from BMW Group companies	21,121,300	23,136,866
Total receivables from BMW Group companies	32,766,160	33,819,735

From the total receivables from BMW Group Companies 68% has a fixed interest rate. The weighted average maturity period and the weighted average effective interest rate of the receivables from BMW Group companies during the financial year 2016 are:

in euro thousand	Outstanding	Weighted average maturity period (in years)	Weighted average effective interest rates (in %)
Receivables from affiliated companies	32,383,077	0.98	0.56
Inhouse Bank BMW AG	278,081	Daily	EONIA* + spread
Trade receivables from BMW group companies	105,002	30 days	None
Total	32,766,160		

*EONIA = Euro Overnight Index Average (per 31-12-2016: 0.329 negative).

The weighted average maturity period and the weighted average effective interest rate of the receivables from BMW Group companies during the financial year 2015 are:

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in euro thousand	Outstanding	Weighted average maturity period (in years)	Weighted average effective interest rates (in %)
Receivables from parent (BMW Holding B.V.)	-	-	-
Receivables from affiliated companies	33,498,621	1.04	0.58
Inhouse Bank BMW AG	203,943	Daily	EONIA*
Trade receivables from BMW group companies	117.171	30 days	None
Total	33,819,735		

*EONIA = Euro Overnight Index Average (per 31-12-2015: 0.131 negative).

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

in euro thousand	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
31.12.2016	21,121,300	10,700,472	944,388	32,766,160
31.12.2015	23,136,866	10,116,677	566,192	33,819,735

All receivables from BMW Group companies are guaranteed by BMW AG when the aggregated losses on these receivables exceed euro 2 million.

9. Marketable securities

The Company has purchased in May 2013 all Class B notes amounting to CHF 57.9 million and all Class Z notes amounting to CHF 21.6 million of the CHF 300 million Asset Backed Security issued by Bavarian Sky S.A., which is a Luxembourg limited liability company (Société Anonyme) incorporated on 26 April 2007. Bavarian Sky S.A. is recognised as a Special Purpose Entity in the consolidated accounts of BMW AG. The Special Purpose Entity is structured as a bankruptcy-remote entity, thus insulating the transaction from the credit risk of the originator/seller (BMW Schweiz AG), and is owned to 100% by Stichting Andesien, a foundation duly incorporated and validly existing under the laws of The Netherlands, having its registered office at Amsteldijk 166, 1079 LH Amsterdam, and registered with the trade register of the Chamber of Commerce in Amsterdam under number 34.272.266.

The portfolio consists of German car lease receivables of BMW Schweiz AG (100% subsidiary of BMW AG) excluding residual value and its development is monitored monthly on the basis of the asset value report received monthly from Bavarian Sky S.A.

In the first half of 2016 the Class B amounting to CHF 57.9 million and all Class Z notes amounting to CHF 21.6 million of the CHF 300 million Asset Backed Security are redeemed.

The Company has purchased in February 2014 all (2500) rated listed secured redeemable non-convertible debentures amounting to INR 2.5 billion private placement issued by BMW India Financial Services Private Limited, which is a private limited company incorporated on 3 November 2009. BMW India Financial Services Private Limited is recognised as a 100% subsidiary in the consolidated accounts of BMW AG. In September 2014 the Company has purchased another INR 5.0 billion private placement issued by BMW India Financial Services Private Limited

The Company has purchased in May 2015 all Class B notes amounting to euro 42.5 million of the euro 400 million Asset Backed Security issued by Bavarian Sky France. The portfolio consists French auto lease receivables and residual value receivables arising from auto lease contracts originated by BMW Finance S.N.C. in France (including Dealer Buy-Back Receivables and future receivables relating to the sale of the underlying vehicles to the lessee or to a third party).

Overview marketable securities per 31 December 2016:

in thousand	Currency	Outstanding	Outstanding in EUR	Maturity period (in years)	Interest rates (in %)
Non-Convertible Debentures	INR	2,500,000	34,845	0.11	8.9
Non-Convertible Debentures	INR	5,000,000	69,689	1.26	9.1
Class B notes FR	EUR	42,500	42,500	7.31	0.5
Total			147,034		

Overview marketable securities per 31 December 2015:

in thousand	Currency	Outstanding	Outstanding in EUR	Maturity period (in years)	Interest rates (in %)
Class B notes	CHF	57,900	53,318	7.38	1.4
Class Z notes	CHF	21,600	19,891	7.38	1.5
Non-Convertible Debentures	INR	2,500,000	34,685	1.11	8.9
Non-Convertible Debentures	INR	5,000,000	69,370	2.26	9.1
Class B notes FR	EUR	42,500	42,500	8.31	0.5
Total			219,764		

The marketable securities are recorded at amortised cost. The fair value of the marketable securities is assumed to be equal to the carrying amount and is allocated to level 2 according to IFRS 13. The valuation technique used for the determination of the fair value is the discounted cash flow method, with use of the following parameters: prepayment rate, delinquency rate, default rate and credit spread. These parameters didn't change significantly since the date of the inception.

10. Income tax receivables

The Income tax receivable is a withholding tax receivable of euro 0,9 million (2015: euro 0.4 million) relating to secured redeemable non-convertible debentures (note 9: marketable securities). The amount is expected to be settled in the tax filling of BMW Holding B.V. (head of the fiscal unity).

11. Interest receivables and other receivables

in euro thousand	31.12.2016	31.12.2015
Other receivables	159	1,177
Total	**159**	**1,177**

Other receivables comprise a trade settlement against third party. The payment was received beginning of January 2016. Other receivables have a maturity of less than one year.

12. Cash and cash equivalents

Cash and cash equivalents include the items as stated below, all with a maturity less than three months and all cash and cash equivalents are freely disposable to the Company.

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in euro thousand	31.12.2016	31.12.2015
Bank balances	-	12,214
Total	-	12,214

In 2012 BMW Finance started participating in the Global Payment Platform from BMW AG. Therefore a part of the cash position with the external bank is reflected in the Inhouse Bank position with BMW AG. The balance is accounted for as Receivable from BMW Group companies (note 8) and Liability due to BMW Group companies (note 17).

13. Issued capital

Authorised share capital consists of 5,000 ordinary shares of euro 500 each of which 3,500 shares have been called up and fully paid-in. The holders of ordinary shares are entitled to execute the rights under the Dutch Civil Code without any restrictions. In comparison with the year-end 2015, there were no changes in these figures. The Company generated an earning per share of euro 2,031 (2015: euro 7,093).

14. Share premium reserve

The share premium reserve comprises additional paid-in capital on the issue of the shares.

15. Capital management

The Company's objectives when managing capital at an individual company level are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may issue new shares or adjust the amount of dividends paid to shareholders. The Company has no prescribed dividend policy.

The Company's equity, as disclosed on the face of the statement of financial position, constitutes its capital. The Company maintains its level of capital by reference to its financial obligations and commitments arising from operations requirements. In view of the extent of the Company's borrowings or debt, the capital level as at the end of the reporting period is deemed adequate by the board of management of the Company.

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to externally imposed capital requirements.

16. Debt securities

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

in euro thousand	31.12.2016	31.12.2015
Debt securities part of a fair value hedge relationship	20,520,844	19,458,627
Debt securities at amortised cost	6,383,530	6,875,086
Commercial paper	731,315	1,799,428
Total	27,635,689	28,133,141

The Bonds under the EMTN Program and other securities issued by BMW Finance during the financial year 2016 comprise:

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Interest	Currency	Issue volume in millions	Weighted average maturity period (in years)	Weighted average effective interest rate (in %)
Variable	EUR	6,101	2.2	0.1
Variable	GBP	67	1.0	0.7
Variable	SEK	1,950	3.0	0.0
Fixed	AUD	690	5.4	4.0
Fixed	CHF	300	6.0	1.7
Fixed	CNH	300	3.0	4.2
Fixed	EUR	15,214	7.2	2.0
Fixed	GBP	2,700	5.2	2.5
Fixed	HKD	1,093	4.1	1.9
Fixed	JPY	49,100	3.7	0.4
Fixed	NOK	1,650	3.9	2.1
Fixed	SEK	1,750	5.0	1.9

The Bonds under the EMTN Program and other securities issued by BMW Finance during the financial year 2015 comprise:

Interest	Currency	Issue volume in millions	Weighted average maturity period (in years)	Weighted average effective interest rate (in %)
Variable	EUR	5,415	2.2	0.2
Variable	GBP	25	1.0	1.0
Variable	SEK	4,700	2.5	0.0
Variable	USD	640	1.5	0.8
Fixed	AUD	500	4.0	4.2
Fixed	CHF	300	6.0	1.7
Fixed	EUR	15,077	7.0	2.3
Fixed	GBP	2,100	5.0	3.0
Fixed	HKD	500	3.0	1.6
Fixed	JPY	51,000	2.5	0.4
Fixed	NOK	750	5.0	2.8
Fixed	SEK	1,750	5.0	1.9

The Euro Medium Term Note ("EMTN") Program of euro 50.0 billion has been used in several currencies by the Company. In 2016 the Company issued 39 notes (2015: 27 notes) with an equivalent of euro 7.5 billion (2015: euro 7.0 billion). Further issuers are BMW AG, BMW US Capital LLC, BMW International Investment B.V. and BMW Japan Finance Corp. Furthermore the Company participates in the euro 5.0 billion Multi-Currency Commercial Paper Program established by BMW AG, BMW Finance N.V., BMW UK Capital plc., BMW Coordination Center V.O.F. and BMW Malta Finance Ltd. The Multi-Currency Commercial Paper Program support flexible and broad access to capital markets. Since May 2006, the Company acts as an issuer under the euro 2.0 billion French Commercial Paper (Billets de Trésorerie) Program established by the Company. Debt issuances under these programs have unconditional and irrevocable guarantees from BMW AG.

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

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

in euro thousand	Outstanding		Weighted average maturity period (in years)		Weighted average interest rates (in %)	
	2016	2015	2016	2015	2016	2015
Total	731,315	1,799,428	0.24	0.34	0.01	0.13

17. Loans due to banks

The average maturity and interest rates are presented in the table below:

in euro thousand	Outstanding		Weighted average maturity period (in years)		Weighted average interest rates (in %)	
	2016	2015	2016	2015	2016	2015
Total	1,894,004	1,901,137	7.20	6.72	0.96	0.81

18. Liabilities due to BMW Group companies

in euro thousand	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
31.12.2016	3,992,271	-	-	3,992,271
31.12.2015	4,361,041	-	-	4,361,041

From the total liabilities from BMW Group Companies 100% has a fixed interest rate. The weighted average maturity period and the weighted average effective interest rate for the liability due to BMW group companies during the financial year 2016 are:

In euro thousand	Outstanding	Weighted average maturity period (in years)	Weighted average effective interest rates (%)
Liability due to Parent (BMW Holding B.V.)	726,776	0.10	0.01
Liability due to affiliated companies	3,264,774	0.05	0.35
Inhouse Bank BMW AG	-	Daily	EONIA* + spread
Trade payables due to BMW group companies	720	30 days	none
Total	3,992,270		

*EONIA = Euro Overnight Index Average (per 31-12-2016: 0.329 negative).

For the liabilities these figures were during the financial year 2015 as follows:

in euro thousand	Outstanding	Weighted average maturity period (in years)	Weighted average effective interest rates (%)
Liability due to Parent (BMW Holding B.V.)	934,353	0.12	(0.13)
Liability due to affiliated companies	3,376,523	0.04	0.12
Inhouse Bank BMW AG	1,167	Daily	EONIA* + spread
Cash pool due to group companies	38,820	Daily	EONIA* + spread
Trade payables due to BMW group companies	10,178	30 days	none
Total	4,361,041		

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19. Interest payables and other liabilities

in euro thousand	31.12.2016	31.12.2015
Interest payables to third parties	258,808	283,352
Other liabilities	221	100
Total	259,029	283,452

Interest payables to third parties are related to debt securities.

20. Employee benefits

The Company participated in a defined benefit plan (final salary pension plan) until 31 December 2016 which is sponsored by BMW Nederland B.V., who in turn is a wholly owned subsidiary of BMW Holding B.V. This pension plan ("Group plan") provides pension benefits for employees upon retirement.

No stated policy is in place between the Company and BMW Nederland B.V. with respect to the allocation of and accounting for the Group plan's net pension costs. This is the reason that no provision has been considered for the Company according to IAS 19.34.

According to IAS 19, BMW Nederland B.V. recognises the remeasurements immediately in the Statement of Comprehensive Income. BMW Nederland B.V. (the sponsoring employer) charges pension costs for the defined benefit plan to the Company based on the Plan's Current and Past Service Costs for the year which are accounted for through the P&L. Basis for the recharging to legal group entities is the salary level of the employees per legal entity (for the Company seven persons are included in the defined benefit plan, these are only active members). Increases in the pension benefit obligation of BMW Nederland B.V. are basically funded through these Service Cost recharges. No minimum funding and allocation or a deficit or surplus on wind-up the plan or the Company's withdrawal from the plan by the Company is agreed with the sponsoring employer.

Special Event

As from January 1, 2017 all employees will join a collective defined contribution scheme. This has led to a settlement per 31 December 2016 on the defined benefit obligation of euro 74,688 thousand and on the fair value of plan assets euro 68,855 thousand.

Overview population of the Group plan (until 31-12-2016):

	Group plan	BMW Finance N.V.	Share in percentage
Active plan members	132	7	5.3%
Deferred pensioners	318	6	1.9%
Pension in payment	85	-	0%
Total	535	13	

Costs for the defined contribution plan (applicable for employees hired as from 2014) are charged to the Company based on actual premium per employee, as charged to BMW Nederland B.V. by the pension insurance company.

The total actual pension costs as charged by BMW Nederland B.V. are recognised in the income statement in 2016 for euro 93 thousand (2015: euro 101 thousand), see also note 5.

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21. Financial instruments

The carrying amounts of financial instruments are analysed below by IAS 39 category. The derivatives that are part of a hedge relationship are recorded in the respective hedge accounting category:

31 December 2016 in euro thousand	Loans and receivables	Assets at fair value trough profit and loss	Fair Value hedges	Total
Assets				
Derivative instruments	-	808,640	752,345	1,560,985
Marketable securities	147,034	-	-	147,034
Interest and other Receivables	159	-	-	159
Tax receivables	877	-	-	877
Cash and Cash equivalents	-	-	-	-
Receivables from BMW group companies	32,766,160	-	-	32,766,160
Total of financial assets	32,914,230	808,640	752,345	34,475,215

31 December 2016 in euro thousand	Other financial liabilities at amortised cost	Liabilities at fair value trough profit and loss	Fair Value hedges	Total
Liabilities				
Debt securities	27,635,689	-	-	27,635,689
Loans due to banks	1,894,004	-	-	1,894,004
Derivative instruments	-	312,734	252,212	564,946
Interest payables and other liabilities	259,029	-	-	259,029
Liabilities due to BMW Group companies	3,992,271	-	-	3,992,271
Total of financial liabilities	33,780,993	312,734	252,212	34,345,939

31 December 2016 In euro thousand	Loans and receivables	Assets at fair value trough profit and loss		Total
			Fair Value hedges	
Assets				
Derivative instruments	-	455.488	992.888	1,448,376
Marketable securities	219,764	-	-	219,764
Other Receivables	1,549	-	-	1,549
Cash and Cash equivalents	12,214	-	-	12,214
Receivables from BMW group companies	33,819,735	-	-	33,819,735
Total of financial assets	34,053,262	455,488	992,888	35,501,638

31 December 2016 In euro thousand	Other financial liabilities at amortised cost	Liabilities at fair value trough profit and loss		Total
			Fair Value hedges	
Liabilities				
Debt securities	28,133,141	-	-	28,133,141
Loans due to banks	1,901,137	-	-	1,901,137
Derivative instruments	-	629,731	70,970	700,701
Interest payables and other liabilities	283,452	-	-	283,452
Liabilities due to BMW Group companies	4,361,041	-	-	4,361,041
Total of financial liabilities	34,678,771	629,731	70,970	35,379,472

Fair value measurement of financial instruments

The fair values shown are computed using market information available at the balance sheet date using appropriate measurement methods, e.g. discounted cash flow models. In the latter case, amounts were discounted at 31 December 2016 on the basis of the following interest rates:

%	EUR	GBP	AUD	RUB	JPY	ZAR
Interest rate for 6 months	(0.22)	0.53	2.04	10.49	(0.05)	7.96
Interest rate for one year	(0.20)	0.55	1.86	10.47	0.02	7.40
Interest rate for five years	0.08	0.86	2.62	9.17	0.07	7.81
Interest rate for 10 years	0.66	1.23	3.00	8.72	0.22	8.33

The interest rates at 31 December 2015 were:

%	EUR	GBP	AUD	RUB	JPY	ZAR
Interest rate for 6 months	(0.04)	0.75	2.46	10.78	(0.07)	7.50
Interest rate for one year	(0.06)	0.84	2.20	11.60	0.11	7.50
Interest rate for five years	0.33	1.59	2.62	10.62	0.17	8.99
Interest rate for 10 years	1.00	2.00	3.09	10.39	0.42	9.47

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

Financial instruments measured at fair value are allocated to different levels:

1. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
2. Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
3. Level 3 inputs are unobservable inputs for the asset or liability.

The following table shows the amounts allocated to each level at 31 December 2016:

	Level hierarchy in accordance with IFRS 13		
In euro thousand	Level 1	Level 2	Level 3
Derivative instruments (assets)			
Fair value hedges	-	752,345	-
Other derivative instruments	-	808,640	-
Derivative instruments (liabilities)			
Fair value hedges	-	252,212	-
Other derivative instruments	-	312,734	-

The following table shows the amounts allocated to each level at 31 December 2015:

	Level hierarchy in accordance with IFRS 13		
In euro thousand	Level 1	Level 2	Level 3
Derivative instruments (assets)			
Fair value hedges	-	992,888	-
Other derivative instruments	-	455,488	-
Derivative instruments (liabilities)			
Fair value hedges	-	70,970	-
Other derivative instruments	-	629,731	-

There were no significant reclassifications within the level hierarchy during 2016.

The notional amounts and fair values of derivative financial instruments of the Company are shown in the following analysis. In accordance with internal guidelines, the nominal amounts of the derivative financial instruments correspond to the volume of exposures being covered with derivatives.

In euro thousand	Notional amount 31.12.2016	Fair value amount 31.12.2016	Notional amount 31.12.2015	Fair value amount 31.12.2015
Assets				
Foreign currency derivatives	10,924,651	862,072	10,914,292	705,654
Interest rate derivatives	18,492,829	678,913	13,889,290	742,722
Total	**29,417,480**	**1,560,985**	**24,803,583**	**1,448,376**

Liabilities				
Foreign currency derivatives	9,455,712	497,393	10,442,016	641,990
Interest rate derivatives	8,535,979	67,553	7,284,290	58,711
Total	**17,991,691**	**564,946**	**17,726,306**	**700,701**

The fair values in the financial asset and liability categories approximate their carrying values, except for the BMW Group receivables with a fixed interest rate, non-current debt securities and other (intercompany) payables with a fixed interest rate. The fair values shown are computed using market information available at the balance sheet date.

31 December 2016:

In euro million		Fair value	Carrying value	Difference
BMW Group receivables *(level 2)*	[9]	32,987	32,766	221
Non-current debt securities	[16]	21,294	21,019	275
whereof level 1		*16,501*		
whereof level 2		*4,793*		
Loans due to banks *(level 2)*	[17]	1,965	1,894	71

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

For the current debt securities the fair value approximate the carrying value.

The change of fair value of the loans due to banks are valued according to level 2 methodologies.

31 December 2015:

In euro million		Fair value	Carrying value	Difference
BMW Group receivables *(level 2)*	[9]	34,333	33,820	513
Non-current debt securities	[16]	19,896	19,797	99
whereof level 1		*17,713*		
whereof level 2		*2,183*		
Loans due to banks *(level 2)*	[17]	1,958	1,901	57

Gains and losses of financial instruments

The following table shows the net gains and losses arising for each of the categories of financial instruments defined by IAS 39 (Assets at fair value through profit and loss and Liabilities at fair value through profit and loss):

in euro thousand	2016	2015
Fair value through profit and loss	(10,658)	(1,005)
Cash flow hedges	-	(1,502)

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Fair value hedges (ineffective portion)		(555)	(775)
Result from financial transactions	[4]	**(11,213)**	**(3,282)**

Gains or losses from the use of derivatives relate primarily to fair value gains or losses arising on derivatives not being part of a hedge relationship but are used to hedge the residual portfolio risk.
For interest income and expenses related to financial instruments, see note 2.

Fair value hedges

The following table shows gains and losses on hedging instruments and hedged items which are deemed to be part of fair value hedge relationship:

in euro thousand	2016	2015
Revaluation on hedging instruments	(54,258)	(187,379)
Profit/loss from hedged items	53,703	186,604
Ineffective portion of fair value hedges	**(555)**	**(775)**

The difference between the gains or losses on hedging instruments and the result recognised on hedged items represents the ineffective portion of fair value hedges. Fair value hedges are mainly used to hedge interest rate risk and foreign currency risk on bonds and other financial liabilities.

Cash flow hedges

The effect of cash flow hedges on equity was as follows:

in euro thousand	2016	2015
Balance at 1 January	-	1,151
Total changes during the year	-	(1,535)
of which recognised in the income statement during the period under report	-	(1,502)
Balance at 31 December	-	**(384)**
Deferred tax on cash flow hedge derivatives	-	384
Net unrealised fair value of cash flow hedge derivatives recognised in equity	-	-

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity within hedging reserve. Any ineffective element of the fair value movement on the derivative is recorded in the income statement. This gain or loss deferred in the hedging reserve is recycled to the income statement when the hedged item also affects income, therefore offsetting to the extent that the hedge is effective. At 31 December 2016, the Company held no derivative instruments anymore to hedge currency risk and interest rate risk attached to future cash flows of bonds and other financial liabilities.

Offsetting of financial instruments

The offsetting of the financial assets and liabilities for derivatives with external parties of the Company is taken into account. Balance sheet netting does not occur due to non-fulfilment of necessary conditions. Since enforceable master netting agreements or similar contracts are in place actual offsetting would be possible in principle, for instance in the case of insolvency. Offsetting would have an impact on the balance sheet values of the derivatives:

in euro thousand	31.12.2016	31.12.2015

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	Assets	Liabilities	Assets	Liabilities
Gross amounts as presented in the balance sheet	1,560,985	(564,946)	1,448,376	(700,701)
Possible netting in case of insolvency	(416,903)	416,903	(507,122)	507,122
Net value of derivatives	1,144,082	(148,043)	941,254	(193,579)

22. Risk management

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

Financial Risks

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

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

- credit risk;
- liquidity risk;
- market risk, and
- operational risk.

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

Risk management framework

Credit Risk

Credit risk result from the risk of default of internal or external counterparties. Given the activities of the Company, the credit risk is mainly related to the Treasury and the intergroup financing activities.

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

All receivables from BMW Group companies are guaranteed by BMW AG when the aggregated losses on these receivables exceed euro 2 million. As a result credit risk of intergroup receivables is substantially mitigated.

The BMW Group policy is to provide financial guarantees only to wholly-owned subsidiaries.
The maximum exposure to credit risk at reporting date was:

In euro thousand	31.12.2016	31.12.2015
Loans and Receivables		
Receivables from BMW Group companies	32,766,160	33,819,735
Interest receivables and other receivables	159	1,549
Marketable securities	147,034	219,764

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Cash and Cash equivalents	-	12,214
Derivative assets	1,560,985	1,448,376
Gross exposure	**34,474,338**	**35,501,638**
Guaranteed by BMW AG	32,764,160	33,817,733
ISDA Agreement (netting with liability derivative positions)	416,903	507,122
Residual maximum exposure	**1,293,275**	**1,176,783**

The residual maximum exposure is primarily related to derivative assets.
The Company has various financial receivables, mainly from BMW Group companies, of which some are considered significant. A concentration of credit risk with particular borrowers has not been identified in conjunction with financial instruments, however all receivables from BMW Group companies are guaranteed by BMW AG when the aggregated losses on these receivables exceed euro 2 million. Therefore the credit risk is primarily related to BMW AG.

The impact of the BREXIT is limited for the Company, due to the guarantee by BMW AG when the aggregated losses on these receivables exceed euro 2 million. And also due to the transfer of receivables in GBP to another BMW Group company, which started in 2016 and will be continued in the coming years.

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

The following table shows the undiscounted maturity structure of the financial liabilities:

31 December 2016 in euro thousand	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total	Carrying amount
Debt securities	6,761,918	6,030,248	15,474,473	28,266,639	27,635,689
Loans due to banks and BMW Group companies	4,163,628	817,118	1,332,489	6,313,235	5,886,275
Derivative instruments - outflow	2,357,632	565,450	3,657,008	6,580,090	564,946
Derivative instruments - inflow	2,203,700	455,874	3,495,350	6,154,924	
Interest payables and other financial liabilities	259,029	-	-	259,029	259,029
Total	**11,338,607**	**6,956,942**	**16,968,620**	**35,264,069**	**34,345,939**

31 December 2015 In euro thousand	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total	Carrying amount
Debt securities	8,194,307	6,940,014	13,446,528	28,580,839	28,133,141

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Loans due to banks and BMW Group companies	4,855,891	638,004	502,618	5,996,513	6,262,178
Derivative instruments - outflow	3,103,460	973,110	4,093,340	8,169,910	700,701
Derivative instruments - inflow	2,966,933	872,727	4,042,074	7,881,734	
Interest payables and other financial liabilities	283,452	-	-	283,452	283,452
Total	13,470,177	7,678,401	14,000,402	35,148,980	35,379,472

The maturity analysis comprises undiscounted cash flows. Changes in maturity structure result from exploiting funding opportunities in a tense market.

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

Market risk

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

Interest rate risk

Interest rate risk refers to potential changes of value in financial assets, liabilities or derivatives in response to fluctuations in interest rates. The Company holds a substantial volume of interest rate sensitive financial assets, liabilities and derivatives for operational, financial and investment activities. Changes in interest rates can have adverse effects on the financial position and operating result of the Company. In order to mitigate the impact of interest rate risk the Company aims in general to change fixed to floating interest rates. Furthermore, the Company continually assesses its exposure to this risk by using gap analysis, value at risk analysis, and duration analysis. Interest rate risk is managed through natural hedges and hedged through the use of derivative financial instruments, such as interest rate swaps. To manage the maturity gaps appropriate interest rate derivatives are used.

The fair values of the Company's derivative financial instruments portfolio to manage the interest rate risk of its fixed income financial instruments were as follows at the balance sheet date:

in euro thousand	Nominal amount 31.12.2016	Fair value 31.12.2016	Nominal amount 31.12.2015	Fair value 31.12.2015
EUR	27,028,808	611,360	21,173,580	684,011

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

The entity implemented the Financial Strategy of the BMW Group. The objective of interest rate risk neutrality is accomplished when interest rate gaps are managed in manner that the economic value of the portfolio of financial instruments is immunised to a considerable degree against changes in interest rates. The Company monitors its interest rate risk exposure continuously and prepares a monthly report submitted to the BMW Group treasury department. A primary risk measure when judging the interest rate exposure of the entity is the present value of a basis point of the portfolio. This concept indicates the impact on profit and loss, representing the sum of discounted cash flows of the financial instruments, by assuming a parallel shift of the interest rate curve of a basis point. Looking at this primary risk measure, the interest rate risk exposure on 31 December 2016 was euro 119,604 negative (2015: euro 785,934 negative).

Currency risk

Currency risk or exchange rate risk refers to potential changes of value in financial assets, liabilities or derivatives in response to fluctuations in exchange rates. Changes in exchange rates can have adverse effects on the financial position and operating result of the Company. In order to mitigate the impact of currency risk arising from operational, financial and investment activities, the Company continually assesses its exposure to this risk. Currency risk is managed and hedged through the use of derivative instruments, such as forward contracts and cross currency swaps. The Company has minor unhedged foreign currency debt positions. These positions are causing the exchange rate result displayed in the profit and loss account as explained in Note 3.

in thousand (all local currency)	Non-derivative financial assets	Non-derivative financial liabilities	Derivative financial instruments	Net exposure
AUD	-	(690,000)	690,000	-
CHF	-	(300,060)	300,060	-
CNH	-	(300,000)	300,000	-
CZK	1,175,000	-	(1,173,443)	1,557
DKK	216,000	-	(216,000)	-
GBP	8,614,300	(3,856,243)	(4,757,300)	757
HKD	-	(1,093,000)	1,093,000	-
HUF	5,700,000	-	(5,703,748)	(3,748)
INR	7,500,000	-	(5,000,000)	2,500,000
JPY	-	(49,100,000)	49,100,000	-
NOK	3,794,000	(1,650,000)	(2,146,020)	(2,020)
RUB	24,910,000	-	(25,516,963)	(606.963)
SEK	8,699,000	(3,700,000)	(4,997,844)	1,156
USD	270,500	(1,065,700)	795,241	41

The sensitivity of the Company's results to changes in foreign currencies against the functional currency shows:

Currency	Net exposure in thousand euro equivalent	Effects on result of a 10% rise in the euro against the respective currency (in euro thousand)	Effects on result of a 10% decrease in the euro against the respective currency (in euro thousand)
CZK	58	(5)	6
GBP	888	(81)	99
HUF	(12)	1	(1)
INR	34,984	(3,180)	3,887
NOK	(222)	20	(25)
RUB	(9,421)	856	(1,047)
SEK	121	(11)	13
USD	39	(4)	4
Total	26,435	(2,404)	2,936

This sensitivity analysis assumes that all other variables, in particular interest rates remain the same.

Non-Financial Risks

Operating Risks

Non-financial risks could arise from operating risks. Risks mainly result from the use of computer systems and information technology. The Company uses computer systems to monitor financial positions and daily cash flows and

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

23. Related parties

Identity of related parties

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

Key management personnel

BMW Finance N.V. has three directors in the board of management. Two directors receive compensation from BMW Finance N.V. The other one is paid by other BMW Group companies outside the scope of BMW Finance N.V. The Company does not have other key management personnel than the board of directors. Therefore the details regarding the compensation of key management personnel including the relevant categories of benefits is described in note 7 "Remuneration of the board of directors". This is the remuneration of the managing director and financial director.

Intercompany pricing

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

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

Ultimate parent company

The interest rate result was positively affected by a liquidity fee of BMW AG of euro 55.6 million (2015: euro 36.7 million) for maintaining a liquidity buffer for BMW Group strategic purposes and the maturity mismatch on the portfolio. This fee is based on negatively impacted net interest margin due to the cost of liquidity, due to structural overfunding, and the maturity mismatch on the total portfolio.

Transactions with affiliated companies

The Company has purchased in May 2013 all Class B notes amounting to CHF 57.9 million and all Class Z notes amounting to CHF 21.6 million of the CHF 300 million Asset Backed Security issued by Bavarian Sky S.A. Bavarian Sky S.A. is recognised as a Special Purpose Entity in the consolidated accounts of BMW AG. In the first half of 2016 the Class B amounting to CHF 57.9 million and all Class Z notes amounting to CHF 21.6 million of the CHF 300 million Asset Backed Security are redeemed.

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The Company has purchased in February 2014 all (2500) rated listed secured redeemable non-convertible debentures amounting to INR 2.5 million private placement issued by BMW India Financial Services Private Limited. In September 2014 the Company has purchased another INR 5.0 million private placement issued by BMW India Financial Services Private Limited. BMW India Financial Services Private Limited is recognised as a 100% subsidiary in the consolidated accounts of BMW AG.

The Company has purchased in May 2015 all Class B notes amounting to euro 42.5 million of the euro 400 million Asset Backed Security issued by Bavarian Sky France. Bavarian Sky France is recognised as a Special Purpose Entity in the consolidated accounts of BMW AG.

Committed credit line

The Company has given a committed credit line to Alphabet Fuhrpark management GmbH for an amount of euro 250 million with a maturity of 1 December 2016 to 1 June 2017. The commission of the commitment is 0.25% per year on each of the committed but not utilized amount of the line of credit.

24. Subsequent events.

Per 15th of January 2017 the Company has signed a factoring agreement with BMW AG and BMW Motoren GmbH for taking over receivables. This is a new business line for the Company. A significant profit related to these factoring services is expected.

The Hague, 7 April 2017

The Board of Management:

F. Altmann	A. Rost	G. Ramcharan
Director	Managing Director	Financial Director

The Supervisory Board:

N. Fiorentinos	T. Sieber
Deputy Chairman	Deputy Chairman

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Independent auditor's report

The independent auditor's report is added to page 44.

Statutory rules as to appropriation of result

According to article 21 of the articles of association, undistributed income is at the disposition of the General Meeting of Shareholders.

Appropriation of result

The appropriation of the result for the year 2015 amounting to euro 24,827 thousand has been endorsed by the General meeting of Shareholders dated June 17, 2016.

Proposed appropriation of result

The Board of Directors proposes the addition of the net profit for the year 2016 amounting to euro 7,110 thousand to the retained earnings.

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Responsibility statement

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

BMW Finance N.V.

The Hague, 7 April 2017

F. Altmann	A. Rost	G. Ramcharan
Director	Managing Director	Financial Director

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Declaration by the Supervisory Board

- The responsibility for the audit committee function for the Company has been placed and will be executed by the Supervisory Board.
- Pursuant to the Articles of Association we are pleased to submit the Annual Report for the year 2016 as drawn up by the Board of Management.
- The Annual Report, which both the Supervisory Board and the Board of Management have signed has been audited by MAZARS PAARDEKOOPER HOFFMAN Accountants N.V.
- The independent auditor's report is included in the other information section of the Annual Report.

The Hague, 7 April 2017

N. Fiorentinos	T. Sieber
Deputy Chairman	Deputy Chairman

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GJO 7/4/2017
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Independent auditor's report

To: general meeting of shareholders and the supervisory board of BMW Finance N.V.

Report on the financial statements 2016

Report on the audit of the financial statements 2016 included in the annual report

Our opinion

We have audited the financial statements 2016 of BMW Finance N.V. In our opinion the accompanying financial statements give a true and fair view of the financial position of BMW Finance N.V. as at 31 December 2016, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- the Balance Sheet as at 31 December 2016;
- the following statements for 2016: Statement of Profit and Loss and other comprehensive income, Cash Flow Statement and Statement of Changes in Equity; and
- the notes, comprising a summary of the significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of BMW Finance N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Based on our professional judgement we determined the performance materiality for the financial statements as a whole at EUR 172 million. The materiality is based on 0.5% of total assets. We use total assets given the Company's main activity is intra-group lending. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of EUR 17 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

CLC 7/4/2017

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Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Cooperation with other auditors

To the extent we have relied in our audit on other auditors within BMW AG group, we have planned audit procedures to ensure sufficient involvement in the nature, timing and extent of the work performed by them. These procedures include issuing instructions to those auditors, reviewing reports prepared by them and reviewing their audit files.

Valuation and existence of the loans issued

We consider the valuation and existence of the loans issued, as disclosed in note 8 to the financial statements for a total amount of EUR 32.7 billion, as a key audit matter. This is due to the size of the loan portfolio and given that an impairment may have a material effect on the income statement. Loans are initially recognised at their fair value and subsequently measured at amortised cost using the effective interest method. The board of directors did not identify any impairment triggers regarding the loans issued.

We have performed audit work addressing the valuation and existence of the loans issued to BMW Group companies, through:

- testing on a sample basis input of contracts in BMW Finance N.V.'s treasury management system;
- reconciliation of the treasury management system with the general ledger;
- confirmation procedures with the counterparties of the loans;
- recalculating the amortised cost value based on the effective interest method;
- analysis of the financial situation of the group companies to which loans have been provided, also considering the guarantee provided by BMW AG;
- assessing whether there were any impairments triggers; and
- audit of data input to calculate the fair value, including cash flows based on underlying contracts, credit spread and market interest.

Derivative valuation

We consider the fair value of the derivatives portfolio as disclosed in note 21 to the financial statements of derivative assets EUR 1.5 billion and derivative liabilities EUR 0.5 billion and used in the company's hedge effectiveness testing as a key audit matter. This is due to the nature of the portfolio and the number of input parameters taken into account in the valuation.

We have tested the valuation of derivatives as well as the valuation of hedged items in hedge accounting relationships (when relevant) by testing the input of contracts in the BMW Finance N.V. valuation system on a sample basis. We have reconciled the interest rate curves and other market data with independent sources. We have assessed whether the settings used in the valuation system and the models used are in line with market practice. We have also assessed the mathematical accuracy of the models used.

Hedge accounting

We consider hedge-accounting as disclosed in note 21 to the financial statements as a key audit matter. This is due to the detailed formal and technical requirements that are applicable to the application of hedge accounting and because inappropriate application of these requirements can lead to a material effect on the income statement.

We have tested on a sample basis whether hedge documentation and hedge effectiveness testing meet the requirements of IAS 39 Financial Instruments, and whether the hedge effectiveness test is mathematically correct. We have reconciled the outcome of the effectiveness testing for the derivative portfolio as a whole to the financial statements.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Directors' Report;
- Report of the Supervisory Board;
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code;

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Directors' Report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were appointed as auditor of BMW Finance N.V. as of the audit for the year 2016.

Description of responsibilities regarding the financial statements

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A full description of our responsibilities is available at the NBA website.

Amsterdam, 7 April 2017

MAZARS PAARDEKOOPER HOFFMAN ACCOUNTANTS N.V.

J.C. van Oldenbeek MSc RA

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COO 7/4/2017

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