



BMW JAPAN FINANCE CORP.

ANNUAL REPORT 2019

**BMW
GROUP**



Rolls-Royce
Motor Cars Limited

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Annual Report 2019

The 31st Period

From 1st January 2019
To 31st December 2019

This annual report is translated and prepared based on the statutory financial statements which were prepared in accordance with the Company Law and accounting standard generally accepted in Japan. However, there are certain changes to the original statutory reports made in this annual report in English in terms of format, description and presentation. The original official statutory financial statements were audited by PricewaterhouseCoopers Aarata LLC and the independent auditors' report was issued on the original official financial statements in Japanese, not on this annual report in English.

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Business Overview

In 2019, Japanese economy saw a slight improvement as corporate earnings and employment rate improved.

Although national car importers were effected by Typhoon Hagibis that tore through Japan in October, new models with advanced safety technology in electric vehicle and hybrid vehicles were actively marketed to fit the needs of customers with variety of life styles, and this was positively reflected in our financial results.

BMW JF Segment Performance

Auto Loan

The main product for this segment targets private customers. Penetration for new car BMW was 48.5%, lower than that of previous year (51.6%). The number of new unit decreased by 13.0% to 15,351.

Penetration for new car MINI was the same as previous year with 62.0%, with decrease in new units by 5.5% to 11,348.

Performance of ALPHERA, auto loans to other brands, also saw a decrease in volume with 1,061 new unit which is 45.9% lower than that of the last year.

The total new loan amount was down by 7.1% to 151.1 billion yen.

Lease

The number of new lease unit was up by 0.3% to 3,861, and its finance amount increased by 2.6% to 24.7 billion yen.

Commercial Finance

This is the amount financed to dealers for purchasing of new vehicles, used vehicles and demo-cars. Total finance amount as of 31st December 2019 was 115.0 billion yen, with decrease by 1.5% from the previous year.

The number of national car sales for new cars for the year reached 70,852 vehicles. Our number of contracts have remained strong, and as a result our balance of loan receivables at the end of the fiscal year reached 517.3 billion yen (increased by 4.2 billion yen).

As for profits, operating income finished at 10.5 billion yen (decreased by 0.23 billion yen), operating profit was 10.5 billion yen (decreased by 0.36 billion yen), net profit after tax was 7.5 billion yen (decreased by 0.57 billion yen).

Credit Card

The number of new contract decreased to 8,441 (8,639 in the previous year), consisting of 3,712 units of BMW cards, 3,700 units of MINI cards, and 1,029 units of Premium cards. The number of active contracts reached 61,340 (60,228 in the previous year) as of the end of the fiscal year 2019.

Auto Insurance

New automobile insurance contract decreased by 15.2% from previous year and the extended warranty for new and used car increased by 1.7% in comparison to the previous year. The number of new insurance contracts were 192,292 units (194,097 in the previous year). As a result, the portfolio in contract reached 634,020 (583,305 in the previous year) as of the end of the fiscal year 2019.

Operating Results by Business Segment

Sales (Interest and Commission Received)

(Yen in Thousands)	31 st Period (Fiscal 2019)		30 th Period (Fiscal 2018)	
	Amount	Share	Amount	Share
Loan	14,116,533	51.2%	13,673,346	51.3%
Lease	9,561,198	34.7%	9,329,102	35.0%
Commercial Finance	1,374,671	5.0%	1,391,109	5.2%
Card	216,465	0.8%	214,918	0.8%
Insurance	2,137,412	7.8%	1,931,617	7.2%
Others	9,740	0.0%	9,476	0.0%
ABL	131,190	0.5%	99,569	0.4%
Total	27,547,213	100.0%	26,649,139	100.0%

Cost of Sales

(Yen in Thousands)	31 st Period (Fiscal 2019)		30 th Period (Fiscal 2018)	
	Amount	Share	Amount	Share
Loan	1,356,002	12.5%	884,874	7.6%
Lease	8,241,073	76.0%	8,852,791	75.6%
Commercial Finance	17,232	0.2%	8,959	0.1%
Card	63,189	0.6%	59,323	0.5%
Insurance	9,090	0.1%	9,805	0.1%
Finance Cost	520,973	4.8%	1,296,228	11.1%
Others	67,441	0.6%	68,879	0.6%
ABL	565,629	5.2%	525,619	4.5%
Total	10,840,632	100.0%	11,706,482	100.0%

Loans (Receivables)

(Yen in Thousands)	31 st Period (Fiscal 2019)		30 th Period (Fiscal 2018)	
	Amount	Share	Amount	Share
Loan	402,243,045	77.7%	396,233,457	77.2%
Commercial Finance	115,148,206	22.3%	116,947,631	22.8%
Total	517,391,251	100.0%	513,181,089	100.0%

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Funding

Asset Securitization:

90 billion yen from Mitsubishi UFJ Trust and Banking Corporation.

47 billion yen from Sumitomo Mitsui Banking Corporation

Long-term loan:

18 billion yen from BMW Finance N.V.

Business Transfer, Assimilative-divisive Reorganization, or Formational-divisive Reorganization

Not applicable.

Transfer or Acquisition of Business

Not applicable.

Acquisition of Shares, Interests, Share Warrants, etc. of Other Companies

Not applicable.

Succession of Rights and Obligations Related to Other Companies' Businesses through Mergers or Reorganizations

Not applicable.

Outlook

We aim to expand finance business by strengthening the relations with dealers, diversifying products, and enhancing service quality. We also make continuous effort to improve business efficiency.

Sales Performance and Asset Growth

(Yen in Millions)	31 st Period (Fiscal 2019)	30 th Period (Fiscal 2018)	29 th Period (Fiscal 2017)	28 th Period (Fiscal 2016)
Sales	27,547	26,649	24,531	20,504
Net profit	7,505	6,963	6,610	6,796
Net profit per share	78,783.29JPY	73,055.22JPY	69,331.72JPY	71,292.70JPY
Net assets per share	632,206.49JPY	581,938.09JPY	543,942.21JPY	474,142.16JPY
Net assets	59,876	55,911	51,516	44,906
Total assets	599,155	593,597	547,149	493,521

Note 1: Sales amount is net of consumption tax.

Note 2: Net assets per share are calculated by dividing net assets by sum of the numbers of issued common stocks and preferred stocks issued at fiscal end. Net profit per share is calculated by dividing net profit deducting preferred stock dividends of 44,355 thousand yen by sum of the average numbers of common stocks and preferred stocks issued and outstanding in the period.

Note 3: We have adopted ASBJ Statement No. 29 Accounting Standard for Revenue Recognition and ASBJ Guidance No. 30 Implementation Guidance on Accounting Standard for Revenue Recognition early, starting from the 30th Period. The amounts shown above for the 28th and 29th Period has been revised using these standards.

Parent Company and Subsidiaries

Our parent company is BMW Japan Corp, which owns 100% of the shares (94,710 shares) of our company. We provide finance to the dealers of the parent company for working capital, as well as to their customers for purchase of BMW vehicles, represented in auto loan and lease business. Our ultimate parent company is BMW AG.

Main business

- Providing loan and lease products to BMW and MINI customers
- Financing BMW, MINI dealers and Multi-brand franchise dealers for new cars and used cars
- Credit card
- Insurance

Place of business operation

1-9-2 Marunouchi, Chiyoda-ku, Tokyo (registered address)

Employee Status

(As of December 31, 2019)	Headcount**	Change from previous fiscal year	Average age	Average service years*
Male	79	+3	41.46	6.9
Female	44	+7	41.05	3.8
Total	123	+10	41.31	5.8

Note 1: Average service years include those at BMW Japan Corp.

Note 2: The headcount does not include temporary staff.

Borrowings

Major lenders are as follows:

(As of December 31, 2019)		Company's shares owned by the Lender company	
Lenders	Borrowings (Yen in Millions)	Number of shares	Voting rights ratio
BMW Finance N.V	145,500	–	–
Mitsubishi UFJ Trust and Banking Corp.	112,015	–	–
Sumitomo Mitsui Banking Corporation	107,712	–	–
Aflac Life Insurance Japan Ltd.	25,000	–	–
Nippon Life Insurance Company	20,000	–	–
Mizuho Trust and Banking Co., Ltd.	25,457	–	–
Meiji Yasuda Life Insurance Company	5,000	–	–
The Dai-ichi Life Insurance Company, Limited	3,000	–	–
BMW Asia Pacific Capital Ltd.	10,261	–	–
Sumitomo Mitsui Trust Bank, Ltd	10,000	–	–
The Chiba Bank, Ltd	5,000	–	–

Accounting Auditor

(1) Accounting auditor: PricewaterhouseCoopers Aarata LLC
 (2) Auditor's remuneration:
 For the fiscal year: 13,669 thousand yen (inclusive of VAT 1,242 thousand yen).

(Fractional amounts and quantities are rounded down and percentages are rounded off in the report)

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Financial Statements 2019 and 2018

The 31st (From 1 January 2019
To 31 December 2019)

And

The 30th (From 1 January 2018
To 31 December 2018)

BMW Japan Finance Corp.
Balance Sheets
As of December 31, 2019 and 2018

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(Yen in Thousands)	2019	2018
Accounts		
(Assets)		
I Current assets	571,832,998	568,254,460
1 Cash on hand and at banks	195,700	161,359
2 Loans	517,391,251	513,181,089
3 Lease receivables	36,983,102	34,467,711
4 Deferred tax assets	–	2,668,206
5 Other current assets	19,089,051	18,451,758
6 Allowance for doubtful receivables	(1,826,108)	(675,663)
II Non-current assets	27,322,583	25,458,735
1 Tangible fixed assets	21,248,079	23,039,416
(1) Leased assets	21,226,022	23,014,833
(2) Building and accessories	9,158	–
(3) Office furniture and equipment	12,897	24,582
2 Intangible assets	220	338
(1) Software	220	338
3 Investments and other assets	6,074,283	2,418,980
(1) Deposits	12,087	12,400
(2) Deferred tax assets	5,175,105	1,682,659
(3) Long-term receivables	1,775,521	1,610,192
(4) Prepaid pension expense	23,404	44,628
(5) Allowance for doubtful receivables	(911,834)	(930,900)
Total Assets	599,155,581	593,713,195
(Liabilities)		
I Current liabilities	293,023,609	258,453,371
1 Accounts payable	34,599,890	32,334,650
2 Short-term borrowings	72,761,668	90,887,279
3 Borrowings from affiliated company	–	–
4 Current portion of long-term borrowings	163,369,896	114,533,317
5 Accrued expenses	974,788	1,122,735
6 Deferred income	12,590,491	12,294,621
7 Reserve for bonuses	228,423	238,780
8 Residual value risk provision	2,947,219	2,109,191
9 Corporate tax payable	2,338,130	1,890,570
10 Other current liabilities	3,213,098	3,042,224
II Non-current liabilities	246,255,696	279,348,118
1 Long-term borrowings	232,816,402	244,875,040
2 Long-term borrowings from affiliated company	–	20,000,000
3 Long-term deferred income	13,240,535	14,082,486
4 Derivative liabilities	167,575	360,013
5 Asset Retirement Obligation	26,000	26,000
6 Other non-current liabilities	5,182	4,577
Total Liabilities	539,279,304	537,801,489

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(Yen in Thousands)		2019	2018
Accounts			
(Net assets)			
I Shareholders' equity		59,876,276	55,911,705
1 Capital stock		4,800,040	4,800,040
2 Capital surplus			
(1) Capital reserve		2,500,040	2,500,040
3 Retained earnings			
(1) Other retained earnings		52,576,195	48,611,624
Retained earnings brought forward		52,576,195	48,611,624
Total Net Assets		59,876,276	55,911,705
Total Net Assets and Liabilities		599,155,581	593,713,195

BMW Japan Finance Corp.
Statements of profit and loss
For the year ended December 31, 2019 and 2018

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(Yen in Thousands) Accounts	2019	2018
I. Sales	27,547,213	26,844,576
II. Cost of sales	10,840,632	11,706,482
Gross profit	16,706,580	15,138,094
III. Selling, general and administrative expenses	6,148,589	4,154,112
Operation income	10,557,991	10,983,981
IV. Non-operating income		
1. Exchange gain	935	–
2. Reversal of allowance for doubtful receivables	–	133,105
3. Others	–	133,131
V. Non-operating expenses		
1. Exchange loss	–	2,447
2. Other non-operating expense	19	–
Ordinary profit	10,558,908	11,114,665
VI. Extraordinary gain		
1. Profit from reversal of risk provision	12,362	29,765
2. Others	–	142
VII. Extraordinary loss		
1. Loss from retirement of fixed assets	–	4,419
Profit before taxes	10,571,270	11,140,153
Corporate tax	4,005,327	3,555,230
Deferred tax	(939,976)	(174,841)
Net profit	7,505,920	7,759,764

BMW Japan Finance Corp.
Statement of Changes in Shareholders' Equity
For the year ended December 31, 2019

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(Yen in Thousands)	Shareholders' equity					
	Capital surplus			Retained earnings		Total shareholders' equity
	Capital	Capital reserve	Total capital surplus	Other retained earnings	Total retained earnings	
				Retained earnings brought forward		
Balance at end of preceding period	4,800,040	2,500,040	2,500,040	48,611,624	48,611,624	55,911,705
Changes in error correction of the prior period				(796,349)	(796,349)	(796,349)
				47,815,275	47,815,275	55,115,356
(Change in the period)						
Dividend paid				(2,745,000)	(2,745,000)	(2,745,000)
Net profit				7,505,920	7,505,920	7,505,920
Total change in the period				4,760,920	4,760,920	4,760,920
Balance at end of the period	4,800,040	2,500,040	2,500,040	52,576,195	52,576,195	59,876,276

	Total net assets
Balance at end of preceding period	55,911,705
Changes in accounting policy error of the prior period	(796,349)
	55,115,356
(Change in the period)	
Dividend paid	(2,745,000)
Net profit	7,505,920
Total change in the period	4,760,920
Balance at end of the period	59,876,276

BMW Japan Finance Corp.
Statement of Changes in Shareholders' Equity
For the year ended December 31, 2018

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(Yen in Thousands)	Shareholders' equity					
	Capital surplus			Retained earnings		Total shareholders' equity
	Capital	Capital reserve	Total capital surplus	Other retained earnings	Total retained earnings	
				Retained earnings brought forward		
Balance at end of preceding period	4,800,040	2,500,040	2,500,040	44,701,860	44,701,860	52,001,941
(Change in the period)						
Dividend Paid				(3,850,000)	(3,850,000)	(3,850,000)
Net profit				7,759,764	7,759,764	7,759,764
Total change in the period				3,909,764	3,909,764	3,909,764
Balance at end of the period	4,800,040	2,500,040	2,500,040	48,611,624	48,611,624	55,911,705

	Total net assets
Balance at end of preceding period	52,001,941
(Change in the period)	
Dividend Paid	(3,850,000)
Net profit	7,759,764
Total change in the period	3,909,764
Balance at the end of the period	55,911,705

BMW Japan Finance Corp.
Statements of cash flows
For the years ended December 31, 2019 and 2018

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(Yen in Thousands)	2019	2018
I Cash inflow from operating activities:		
Reconciliation of operating profit to net cash inflow		
1 Profit before tax	10,571,270	11,140,153
2 Depreciation and amortization	8,248,395	9,399,419
3 Loss on disposal of property and equipment	19	4,419
4 Increase (decrease) in allowance for doubtful receivables	1,131,379	(693,172)
5 Increase (decrease) in bonus provision	(10,356)	2,763
6 Decrease (increase) in prepaid pension expense	21,224	(6,250)
7 Profit from derivatives	(208,609)	311,565
8 Profit from sales of assets leased to customers	(939,279)	(899,622)
9 Interest expense	1,289,313	1,505,439
10 Decrease (increase) in loans receivable	(4,375,490)	(45,011,263)
11 Decrease (increase) in lease receivables	(2,515,391)	(1,816,116)
12 Decrease (increase) in other current assets	(637,293)	(1,804,876)
13 Acquisition of lease asset	(8,831,610)	(9,167,391)
14 Disposal of lease asset	3,319,189	3,455,391
15 Increase (decrease) in accounts payable	2,265,239	(1,252,588)
16 Increase (decrease) in accrued expenses	31,593	(67,934)
17 Increase (decrease) in deferred income	(1,226,691)	521,549
18 Increase (decrease) of Residual Value Provision	838,027	473,845
19 Increase (decrease) of other current liabilities	170,874	(278,057)
20 Increase (decrease) of Asset Retirement Obligation	605	–
21 Increase (decrease) from other sales activity	18,704	31,229
Subtotal	9,161,112	(34,151,496)
23 Interest income and dividend income received	0	0
24 Interest paid	(1,452,682)	(1,570,399)
25 Income taxes paid	(3,576,471)	(3,541,431)
Net cash used in operating activities	4,131,958	(39,263,329)
II Cash flows from investing activities:		
1 Purchases of fixtures and equipment	(5,259)	(6,202)
2 Increase in deposits	(7,738)	(6,872)
3 Decrease in deposits	8,051	4,380
Net cash provided by (used in) investing activities	(4,946)	(8,694)
III Cash flows from financing activities:		
1 Net increase (decrease) in short-term loan	(18,125,611)	(1,946,642)
2 Net increase (decrease) in borrowings from affiliated company	–	(48,800,000)
3 Increase in long-term loan	155,000,000	219,000,000
4 Decrease in long-term loan	(118,222,059)	(125,291,122)
5 Decrease in long-term loan from affiliated company	(20,000,000)	–
6 Dividend Paid	(2,745,000)	(3,850,000)
IV Net cash provided by financing activities	(4,092,670)	39,112,235
V Increase (decrease) in cash and cash equivalents	34,341	(159,788)
VI Cash and cash equivalents at beginning of the year	161,359	321,148
Cash and cash equivalents at end of the year	195,700	161,359

[Outline of Compliance]

Financial statements are prepared in accordance with the Generally Accepted Accounting Principles and ordinance on company accounting (except supplementary statement) for the purpose of disclosure on Euro Medium Term Note Program (hereafter “EMTN Program”). EMTN Program’s annual update does not request disclosure of supplementary statement. Cash flow statement and related footnote has been prepared based on the Generally Accepted Accounting Principles.

[Significant accounting policies]

1. Accounting policies

(1) Valuation standard or method for assets

Derivatives

Fair value method

(2) Depreciation of fixed assets

Property and equipment

- 1 Property and equipment leased to customers

Declining rate method over the estimated useful life (three to five years)

- 2 Building and accessories

Declining rate method over the estimated useful life (15 years), except for those procured after 1st April 2018, which are depreciated using declining balance method.

- 3 Office furniture and equipment

Declining rate method over the estimated useful life (five to eight years)

Intangible fixed assets

Straight-line method over the useful life (five years) for software used internally

(3) Accounting for reserves

Allowance for doubtful receivables

Allowance for doubtful receivables is provided for an amount sufficient to cover credit loss estimates based on the general credit loss historical ratio for general receivables, and collectability analysis for non-performing and doubtful receivables.

Retirement allowance for employees

Retirement allowance for employees is provided for an amount sufficient to cover the retirement benefits deemed to have occurred at the balance sheet date based on the estimated retirement benefit obligation as of the balance sheet date and pension assets.

The all actuarial calculation differences are expensed in the accounting period in which they are incurred.

Allowance for bonuses

Allowance for bonuses is provided for based on the estimated bonus amount.

Residual Value Risk Provision

Allowance for residual value is provided for an amount based on the estimate of residual value loss.

(4) Recognition of income and expenses

We have adopted ASBJ Statement No. 28 Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28 Implementation Guidance on Tax Effect Accounting) for recognition.

Auto-loan commission

Commission received on auto-loan contracts is recorded as deferred income and recognized as interest and commission received over the term of the contracts using the rule-of-78 method*.

Interest subsidy

Interest subsidy received is recorded as deferred income and recognized as interest and commission received over the term of the contracts on the rule-of-78 method* except subsidy on lease contracts. Subsidy on lease contracts is recognized as income to match the lease revenue.

Guarantee fees for auto-loans

Guarantee fees for auto-loans are expensed when paid as interest/commission.

*The rule-of-78 method is the method whereby income or expenses are recognized using the sum-of-the-years'-digits method so as to approximate a level yield relative to the principal outstanding.

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Finance lease

Interest is recognized as the difference between the purchase price of assets (vehicle) and the total lease fee amount. Revenue is allocated to each period over the lease term.

Operating lease

Total lease fees are recognized as revenue each month equally over the lease term.

(5) Cash and cash equivalents in statements of cash flows

In preparing the statements of cash flows, cash on hand, readily available deposit and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(6) Other standards for creating financial statements

- 1 Accounting for hedge transactions
Specific Hedge Accounting is applied to interest rate swap where requirements are met and is applicable.

- (i) Hedging instruments and hedged items
Hedging instruments—interest rate swaps, cross-currency interest rate swaps
Hedged items—borrowings, bonds

- (ii) Hedging policy
The Company performs derivatives transactions under the strict control of the management standard set out by the BMW Group to hedge against interest rate and currency risks and secure stable income.

- (iii) Method of assessing the effectiveness of hedging
The assessment of interest swaps are omitted as Specific Hedging Accounting is applied.

- 2 Accounting for consumption taxes
Consumption taxes are excluded from income and expenses.

- 3 Currency Translation
Monetary claims and debts measured in foreign currency is translated to Japanese yen at the rate as of the end of the fiscal year. The exchange difference is booked as profit or loss accordingly.

[Change in Representation]

We have adopted ASBJ Statement No. 28 Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28 Implementation Guidance on Tax Effect

Accounting) and as such, deferred tax asset is now shown under investments and other assets while deferred tax obligation is shown under non-current asset.

[Correction of Prior Period Accounting Errors]

The rate used to calculate deferred tax asset in the previous year's financial statement was incorrect and the deferred tax asset was overstated. We have corrected accordingly in this fiscal period, and thus the effect of the correction is reflected in the beginning balance of the retained earnings. As a result, the beginning balance of adjustment to income

taxes and retained earnings have both decreased by 115,737 thousand yen. There was also an error in recognition of deferred income for lease fee from operating lease in the previous fiscal years. This has been corrected to evenly recognize the income over the period of the lease contract. As a result, the beginning balance of retained earnings have decreased by 680,611 thousand yen.

[Notes to balance sheets]

(1) Pledged assets and obligations

1 Pledged assets

Loans 321,373,416 (Yen in Thousands)

(2) Pledged obligations

2 Pledged obligations

Long term Borrowings(including those payable within one year)

245,186,299 (Yen in Thousands)

(2) Accumulated depreciation of tangible fixed assets

(Yen in Thousands)	2019	2018 (For Reference)
1. Accumulated depreciation of tangible fixed assets	22,062,202	18,549,869

(3) Receivables from or payables to related parties

1. BMW Japan Corp.

(Yen in Thousands)	2019	2018 (For Reference)
1. Accounts receivable	708,550	723,559
2. Accounts payable	33,288,575	30,727,548

2. BMW Holding B.V.

(Yen in Thousands)	2019	2018 (For Reference)
1. Borrowings	–	20,000,000
2. Interest payable	–	84,653

3. BMW Holding AG

(Yen in Thousands)	2019	2018 (For Reference)
1. Borrowings	6,256	–
2. Interest payable	120,250	–

[Notes to statements of profit and loss]

(1) Transactions with related parties

1. BMW Japan Corp.

(Yen in Thousands)	2019	2018 (For Reference)
1. Interest and commission received (interest subsidy and others)	5,760,235	5,996,402
2. Operating expenses	209,593	182,321
3. Purchase of fixed assets	–	610,702

2. BMW Holding B.V.

(Yen in Thousands)	2019	2018 (For Reference)
1. Interest paid	13,676	219,312

3. BMW AG

(Yen in Thousands)	2019	2018
1. Guarantee fee paid	65,619	67,639

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[Notes to statement of changes in shareholders' equity]

(1) Number of outstanding stocks

The previous and current fiscal year

94,710 (Common Stocks 6,000, Preferred Stocks 88,710)

(2) Dividends

Payment amount

Resolution	Classes of stocks	Total Amount (thousand yen)	Per share (yen)	Base date	Date of entry into force
25 th March 2019 Extraordinary meeting	Preferred Common	2,573,910 171,089	29,014.88 28,514.88	31 st December 2018	25 th May 2019

[Notes to deferred tax accounting]

Main sources of current year's deferred tax asset are due to the excess deferred revenues, the excess of

allowance for doubtful accounts and the excess of residual value risk provision. This also applies to the deferred tax asset for the previous fiscal year.

[Notes to lease transaction]

Lessor

(1) Finance lease

1. Details of lease receivables

(Yen in Thousands)	2019	2018 (For Reference)
Lease principal portion	20,636,830	18,846,257
Residual value	17,706,855	16,886,189
Interest	(1,363,583)	(1,264,736)
Total	36,983,102	34,467,711

2. Estimated amount to be recovered in part after the end of fiscal year relating to lease receivables

(Yen in Thousands)	2019	2018 (For Reference)
Term		
1 year	7,754,898	7,270,793
1 year to 2 year	5,735,401	5,336,189
2 year to 3 year	3,910,497	3,430,448
3 year to 4 year	2,411,247	2,056,126
4 year to 5 year	827,785	752,699
Over 5 year	—	—
Total	20,639,830	18,846,257

(2) Operating lease

(Yen in Thousands)	2019	2018 (For Reference)
Unrealized lease fee		
1 year	5,528,484	5,426,827
Over 1 year	7,927,445	9,394,953
Total	13,455,930	14,821,781

[Notes to financial instruments]
The previous fiscal year (From January 1st, 2018 to December 31st, 2018)

1. Matters concerning the status of financial instruments

- (1) Policy of financial instruments
 Our company business is finance services loans, lease for car vehicles and credit card. To procure these funds, we have taken into account market conditions and the balance between the short and long procurement, and have used indirect financing through bank loans as well as direct financing through bonds and debt liquidation. As we have financial assets, liabilities and cash flows that are affected by the changes in fair value of interest rate at that time, we have ALM and derivatives as a mean to prevent adverse effects of change in interest rates and currency exchange. Derivative transactions are used to avoid interest rate risk and currency risk, and speculative trading is not performed.

- (2) The details and risks of financial instruments
 Financial assets held by the company are loans and leases receivables of denominated fixed interest primarily to individuals and domestic partners, and are exposed to liquidity risk relating to funding. However, bad-debt risk on some loans to individual customers are mitigated by having business outsource contract with APLUS Corporation Ltd. Although we do some fundraising for foreign currency, exchange rate risk caused is fully hedged through currency swaps. Currency risks occur when the counterparty is unable to meet the obligations of trading counterparties.

- (3) Risk management of financial instruments
1. Credit Risk Management
 We manage our credit risk through a system specializing for risk and debt management. As a way to manage counterparty risk, treasury department checks credit information and fair value on regular bases.
 2. Market Risk Management
 - (i) Interest Rate Risk Management
 We manage our interest rate risk through ALM, and we conduct

derivative transactions such as interest swaps. The procedures for risk management is stated in Risk Management Guidelines of ALM and we hold treasury meetings regularly and report to the management on monthly basis.

- (ii) Derivatives
 We have segregated the authority of execution, assessment of the effectiveness of hedge instruments and bookings in regards to derivative transactions as a way to establish internal control in accordance with internal rules.
- (iii) Quantitative Information Relating to Market Risk
 Main financial instruments subject to the interest rate risk in the Company are operating loans, lease receivables, long-term borrowings and derivatives. In theory, when the rest of variable risks stay constant and if the interest rate as of December 31st, 2018 rose 50 basis-points (0.5%), the impact on financial instrument's current value will be a decrease of 5,503 million yen, and a decrease of 50 basis-points (0.5%) will increase the value 5,627 million yen.

3. Management of liquidity risk in regards to funding
 We manage liquidity risk by timely management of cash thorough ALM, diversification of funding methods, and by balancing long and short procurement in accordance with the market situation at that time.

- (4) Additional notes regarding the management of the fair value of financial instruments
 Fair value of financial instruments is measured based on the market prices, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments for which a quoted market price is not available is calculated based on certain assumptions, and the fair value might differ if different assumptions are used.

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2. Fair values of financial instruments

As of 31 Dec 2018, the carrying amounts and fair values and their differences are as follows,

(Yen in Thousands)	Carrying amount	Fair value	difference
(1) Cash on hand and banks	161,359	161,359	–
(2) Loans	513,181,089		
Deferred interest	(17,086,249)		
Allowance for doubtful receivables (*1)	(654,112)		
	495,440,727	513,044,479	17,603,751
(3) Lease receivables	34,467,711		
Allowance for doubtful receivables (*1)	(21,551)		
	34,446,159	35,721,706	1,275,547
(4) Fixed receivables	1,610,192		
Allowance for doubtful receivables (*1)	(930,900)		
	679,292	679,292	–
Total assets	530,727,539	549,606,838	18,879,298
(1) Accounts payables	32,334,650	32,334,650	–
(2) Short-term borrowings	90,887,279	90,887,279	–
(3) Current portion of long-term borrowings	114,533,317	114,533,317	–
(4) Long-term borrowings	244,875,040	286,588,234	(41,713,193)
(5) Long-term borrowings from affiliated company	20,000,000	20,000,000	
Total liabilities	502,630,288	514,310,066	(41,713,193)

(*1) Net of general and specific provisions for corresponding account codes.

(Note 1) Matters concerning the method of calculating the fair value of securities and financial instruments.

Assets

(1) Cash on hand and banks

Their fair value is the relevant book value because the fair value approximates the book value.

(2) Loans

Fair value of the installment receivables is calculated using the discount rate based on internal rules. Fair value of loans for commercial finance is the relevant book value because the market value approximates the book value. For doubtful receivables, they are calculated based on the estimated amount receivable, in which their balance sheet amount at the closing date less the currently estimated bad debt are proximate to their fair value, and thus stated as such.

(3) Lease receivables

Fair value of the lease receivables is calculated using the discount rate based on internal rules.

(4) Fixed receivables

They are calculated based on the estimated amount recoverable, in which their balance sheet amount at the closing date less the currently estimated bad debt are proximate to their fair value, and thus stated as such.

Liabilities

(1) Account payable

(2) Short-term borrowings

Above liabilities are stated at the book value as the book value is nearly equal to fair value.

(3) Current portion of long-term borrowings

(4) Long-term borrowings

(5) Long-term borrowings from affiliated company

The carrying value of long-term borrowings with floating interest rates approximate fair value because the floating rates will be determined

by the market interest rate in the short term and there are no significant fluctuations in the credit standing of the Company after borrowing. The fair values of long-term borrowings with fixed interest rates are measured by discounting the total amount to be paid, including principal and interest based on specific period, at interest rates assumed when a similar and new borrowing is made. Specific Hedge accounting treatment is used for valuation of borrowings

with interest rate swaps that have notional principal, terms of interest payment and receipt, and the contract term nearly equal to those of the said debts.

Derivatives

(1) For which hedge accounting is not applied

Values are stated by discounted present value using the BMW group common system.

(Yen in Thousands) Classification	Type of Derivative	Contract Amount	Thereof over 1 Year	Fair Value	Valuation Loss
Transactions off the market	Interest Swap of fixed payment for floating receipt	270,500,000	211,500,000	(360,013)	(311,565)
Total		270,500,000	211,500,000	(360,013)	(311,565)

(2) For which hedge accounting is applied

They are accounted for as a part of hedged items of long-term borrowings, and thus their

fair values are included in the fair values of the relevant long-term borrowings.

(Note 2) Schedule of financial receivable after the current fiscal year

(Yen in Thousands)	-1 year	1-5 year	Over 5 year
(1) Cash on hand and banks	161,359	-	-
(2) Loan	215,560,056	296,019,155	1,601,876
(3) Lease receivables	9,774,064	24,693,646	-

Fixed receivables are not included in the above amount because redemption schedule cannot be expected.

(Note 3) Schedule of financial liabilities after the current fiscal year

(Yen in Thousands)	-1 year	1-5 year	Over 5 year
(1) Accounts payables	32,334,560	-	-
(2) Short-term borrowings	90,887,279	-	-
(3) Inter-company borrowings	-	20,000,000	-
(4) Long-term borrowings	114,533,317	201,875,040	43,000,000

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The current fiscal year (From January 1st, 2019 to December 31st, 2019)

Matters concerning the status of financial instruments

- (1) Policy of financial instruments
Our company business is finance services loans, lease for car vehicles and credit card. To procure these funds, we have taken into account market conditions and the balance between the short and long procurement, and have used indirect financing through bank loans as well as direct financing through bonds and debt liquidation. As we have financial assets, liabilities and cash flows that are affected by the changes in fair value of interest rate at that time, we have ALM and derivatives as a mean to prevent adverse effects of change in interest rates and currency exchange. Derivative transactions are used to avoid interest rate risk and currency risk, and speculative trading policy is not performed.
- (2) The details and risks of financial instruments
Financial assets held by the company are loans and leases receivables of denominated fixed interest primarily to individuals and domestic partners, and are exposed to liquidity risk relating to funding. However, bad-debt risk on some loans to individual customers are mitigated by having business outsource contract with APLUS Corporation Ltd. Although we do some fundraising for foreign currency, exchange rate risk caused is fully hedged through currency swaps. Currency risks occur when the counterparty is unable to meet the obligations of trading counterparties.
- (3) Risk management of financial instruments
 1. Credit Risk Management
We manage our credit risk through a system specializing for risk and debt management. As a way to manage counterparty risk, treasury department checks credit information and fair value on regular bases.
 2. Market Risk Management
 - (i) Interest Rate Risk Management
We manage our interest rate risk through ALM, and we conduct

derivative transactions such as interest swaps. The procedures for risk management is stated in Risk Management Guidelines of ALM and we hold treasury meetings regularly and report to the management on monthly basis.

- (ii) Derivatives
We have segregated the authority of execution, assessment of the effectiveness of hedge instruments and bookings in regards to derivative transactions as a way to establish internal control in accordance with internal rules.
- (iii) Quantitative Information Relating to Market Risk
Main financial instruments subject to the interest rate risk in the Company are operating loans, lease receivables, long-term borrowings and derivatives. In theory, when the rest of variable risks stay constant and if the interest rate as of December 31st, 2019 rose 50 basis-points (0.5%), the impact on financial instrument's current value will be a decrease of 5,733 million yen, and a decrease of 50 basis-points (0.5%) will increase the value 5,858 million yen.

3. Management of liquidity risk in regards to funding
We manage liquidity risk by timely management of cash thorough ALM, diversification of funding methods, and by balancing long and short procurement in accordance with the market situation at that time.

- (4) Additional notes regarding the management of the fair value of financial instruments
Fair value of financial instruments is measured based on the market prices, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments for which a quoted market price is not available is calculated based on certain assumptions, and the fair value might differ if different assumptions are used.

3. Fair values of financial instruments

As of 31 Dec 2019, the carrying amounts and fair values and their differences are as follows,

(Yen in Thousands)	Carrying amount	Fair value	difference
(1) Cash on hand and banks	195,700	195,700	—
(2) Loans	517,391,251		
Deferred interest	(15,815,149)		
Allowance for doubtful receivables (*1)	(1,767,601)		
	499,808,500	517,241,557	17,433,057
(3) Lease receivables	36,983,102		
Allowance for doubtful receivables (*1)	(58,507)		
	36,924,595	38,333,184	1,408,589
(4) Fixed receivables	1,775,521		
Allowance for doubtful receivables (*1)	(911,834)		
	863,686	863,686	—
Total Assets	537,792,483	556,634,130	18,841,646
(1) Accounts payables	34,599,890	34,599,890	—
(2) Short-term borrowings	72,761,668	72,761,668	—
(3) Current portion of long-term borrowings	163,369,896	163,369,896	—
(4) Long-term borrowings	232,816,402	243,909,857	(11,093,454)
Total Liabilities	502,630,288	514,310,066	(11,679,777)

(*1) Net of general and specific provisions for corresponding accounts

(Note 1) Matters concerning the method of calculating the fair value of securities and financial instruments.

Assets

(1) Cash on hand and banks

Their fair value is the relevant book value because the fair value approximates the book value.

(2) Loans

Fair value of the installment receivables is calculated using the discount rate based on internal rules. Fair value of loans for commercial finance is the relevant book value because the market value approximates the book value. For doubtful receivables, they are calculated based on the estimated amount receivable, in which their balance sheet amount at the closing date less the currently estimated bad debt are proximate to their fair value, and thus stated as such.

(3) Lease receivables

Fair value of the lease receivables is calculated using the discount rate based on internal rules.

(4) Fixed receivables

They are calculated based on the estimated amount recoverable, in which their balance sheet amount at the closing date less the currently estimated bad debt are proximate to their fair value, and thus stated as such.

Liabilities

(1) Account payable

(2) Short-term borrowings

Above liabilities are stated at the book value as the book value is nearly equal to fair value.

(3) Current portion of long-term borrowings

(4) Long-term borrowings

(5) Long-term borrowings from affiliated company

The carrying value of long-term borrowings with floating interest rates approximate fair value because the floating rates will be determined by the market interest rate in the short term and

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there are no significant fluctuations in the credit standing of the Company after borrowing. The fair values of long-term borrowings with fixed interest rates are measured by discounting the total amount to be paid, including principal and interest based on specific period, at interest rates assumed when a similar and new borrowing is made. Specific Hedge accounting treatment is used for valuation of borrowings

with interest rate swaps that have notional principal, terms of interest payment and receipt, and the contract term nearly equal to those of the said debts.

Derivatives

- (1) For which hedge accounting is not applied**
Values are stated by discounted present value using the BMW group common system.

(Yen in Thousands) Classification	Type of derivative transactions	Contract Amount	Thereof over 1 Year	Fair Value	Valuation gains
Transactions off the market	Interest Swap of fixed payment for floating receipt	274,500,000	179,500,000	(167,575)	208,609
Total		274,500,000	179,500,000	(167,575)	208,609

(2) For which hedge accounting is applied

Specific hedge accounting treatment is applied for all of our interest rate swaps. They are accounted for as a part of hedged items of

long-term borrowings, and thus their fair values are included in the fair values of the relevant long-term borrowings.

(Note 2) Schedule of financial receivable after the current fiscal year-end

(Yen in Thousands)	-1 year	1-5 year	Over 5 year
(1) Cash on hand and banks	195,700	-	-
(2) Loan	216,512,445	299,311,021	1,567,784
(3) Lease receivables	10,300,787	26,682,315	-

(Note 3) Schedule of financial liabilities after the current fiscal year-end

(Yen in Thousands)	-1 year	1-5 year	Over 5 year
(1) Accounts payables	34,599,890	-	-
(2) Short-term borrowings	72,761,668	-	-
(3) Long-term borrowings	163,369,896	192,816,402	40,000,000

[Notes to transactions with related parties]

Previous Fiscal Year (January 1st, 2018 – December 31st, 2018)

(1) Parent company and major shareholder

(Yen in Millions)

Status	Company name	Address	Capital	Detail of business	Ratio of ownership (%)	Relationship	Details	Transaction amount	Code	Ending balance
Parent company	BMW Japan Co.	Chiyoda-ku, Tokyo	4,230 MJPY	Import and sale of vehicle, motor cycle and car accessory	(owned) direct 100%	Suppliers 1 person director	Factoring paid	408,104,280	Factoring payable	30,688,042
							Subvention received	4,634,782	Subvention Receivable	588,409
Parent company	BMW Holding B.V.	Holland	52 MEUR	Financial holdings	(owned) In-direct 100%	Loan lender	Net repayment	48,800,000	Borrowing	20,000,000
							Net interest paid	219,312	Interest payable	84,653
Parent company	BMW AG	Germany	658 MEUR	Manufacture and sale of vehicle and motor cycle	(owned) In-direct 100%	Guarantor	Guarantee fee paid	67,639	–	–

(2) Subsidiary of parent company

(Yen in Millions)

Status	Company name	Address	Capital	Detail of business	Ratio of ownership (%)	Relationship	Details	Transaction amount	Code	Ending balance
Subsidiary of parent company	BMW Asia Pacific Capital Ltd.	Singapore	26 TEUR	Treasury service center	–	Loan lender and borrower	Net repayment	3,053,357	Short-term borrowing	3,387,279
							Net interest paid	1,562	Interest payable	1,405
							Derivative	– (Note 1)	Derivative Liabilities	360,013
Subsidiary of parent company	BMW Finance N.V.	Holland	1,750 TEUR	Cash management of group company	–	Loan lender	Net borrowing	31,000,000	Short-term borrowing	87,500,000
									Long-term borrowing	79,000,000
							Net interest paid	497,387	Interest payable	130,456
Subsidiary of parent company	BMW Tokyo Co	Minato-ku, Tokyo	495 MJPY	Sale of vehicle, motor cycle and car accessory	–	Loan borrower	Net lending	1,800,000 (Note 2)	Short-term lending	8,100,000
							Net interest received	98,111	Interest receivable	8,071

(Note 1) Only the ending balance is shown because it is a repetitive and continuous transaction.

(Note 2) The terms and conditions of the above transactions are determined in consideration with market interest rate.

- (3) Information to parent company
 BMW Japan Corp. (Unlisted Company)
 BMW Holding B.V. (Unlisted Company)
 BMW AG (Listed on Frankfurt Stock Exchange)

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Current Fiscal Year (January 1st, 2019 – December 31st, 2019)

(1) Parent company and major shareholder

(Yen in Millions)

Status	Company name	Address	Capital	Detail of business	Ratio of ownership (%)	Relationship	Details	Transaction amount	Code	Ending balance
Parent company	BMW Japan Co.	Chiyoda-ku, Tokyo	4,230 MJPY	Import and sale of vehicle, motor cycle and car accessory	(owned) direct 100%	Suppliers 1 person director	Factoring paid	530,124,106	Factoring payable	33,200,895
							Subvention received	4,731,066	Subvention Receivable	544,308
Parent company	BMW Holding B.V.	Holland	52 MEUR	Financial holdings	(owned) In-direct 100%	Loan lender	Net repayment	20,000,000	–	–
							Net interest paid	13,676	–	–
Parent company	BMW AG	Germany	658 MEUR	Manufacture and sale of vehicle and motor cycle	(owned) In-direct 100%	Guarantor	Guarantee fee paid	65,619	–	–

(2) Subsidiary of parent company

(Yen in Millions)

Status	Company name	Address	Capital	Detail of business	Ratio of ownership (%)	Relationship	Details	Transaction amount	Code	Ending balance
Subsidiary of parent company	BMW Asia Pacific Capital Ltd.	Singapore	26 TEUR	Treasury service center	–	Loan lender and borrower	Net repayment	6,874,389	Short-term borrowing	10,261,668
							Net interest paid	23,112	Interest payable	1,692
							Derivative	– (Note 1)	Derivative Liabilities	167,575
Subsidiary of parent company	BMW Finance N.V.	Holland	1,750 TEUR	Cash management of group company	–	Loan lender	Net borrowing	21,000,000	Short-term borrowing	62,500,000
									Current portion of long-term borrowing	60,000,000
							Net interest paid	442,905	Long-term borrowing	23,000,000
									Interest payable	41,851
Subsidiary of parent company	BMW Tokyo Co	Minato-ku, Tokyo	495 MJPY	Sale of vehicle, motor cycle and car accessory	–	Loan borrower	Net lending	5,799,435 (Note 2)	Short-term lending	13,899,435
							Net interest received	95,803	Interest receivable	7,949

(Note 1) Only the ending balance is shown because it is a repetitive and continuous transaction.

(Note 2) The terms and conditions of the above transactions are determined in consideration with market interest rate. Current portion of long-term borrowings

- (3) Information to parent company
 BMW Japan Corp. (Unlisted Company)
 BMW Holding B.V. (Unlisted Company)
 BMW AG (Listed on Frankfurt Stock Exchange)

[Notes to per share information]Previous Fiscal Year (January 1st, 2018 – December 31st, 2018)

	2018
1. Net assets per share	¥590,346.38
2. Net profit per share	¥81,463.51

(Note) Net assets per share are calculated by dividing net assets by the total of the numbers of common stocks and preferred stocks issued at the end of the fiscal year. Net profit per share is calculated

by dividing net profit deducting preferred stock dividends of 44,355 thousand yen by sum of the average numbers of common stocks and preferred stocks issued and outstanding in the period.

Current Fiscal Year (January 1st, 2019 – December 31st, 2019)

	2019
1. Net assets per share	¥632,206.49
2. Net profit per share	¥78,783.29

(Note) Net assets per share are calculated by dividing net assets by the total of the numbers of common stocks and preferred stocks issued at the end of the fiscal year. Net profit per share is calculated

by dividing net profit deducting preferred stock dividends of 44,355 thousand yen by sum of the average numbers of common stocks and preferred stocks issued and outstanding in the period.

[Notes to subsequent events]

Previous Fiscal Year (January 1st, 2018 – December 31st, 2018)
Not applicable

Current Fiscal Year (January 1st, 2019 – December 31st, 2019)
Not applicable

[Notes to statements of cash flows]

(Yen in Thousands)	FY2019	FY2018
Reconciliation between the balance of cash and cash equivalents the account on the balance sheets were as follows;		
1. Cash on hand and at banks	195,700	161,359
2. Cash and cash equivalents	195,700	161,359

[Other notes]

- (1) Amounts of less than one thousand yen have been rounded off in the accompanying financial statements.

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Appendix to Financial Statements

The 31st Period

From 1 January 2019
To 31 December 2019

[1] **Details of Tangible and Intangible Assets**

(Yen in Thousands)	Beginning Balance	Current increase	Current decrease	Current depreciation amount	Ending Balance	Accum. depreciation amount	Acquisition cost at year-end
Contents							
Assets Tangible							
Lease equipment	23,014,833	8,831,610	2,379,909	8,240,511	21,226,022	21,975,082	43,201,105
Building and accompanying facilities	9,028	1,438	–	1,308	9,158	20,348	29,507
Equipment	15,554	3,820	19	6,457	12,897	66,771	79,669
Total	23,039,416	8,836,870	2,379,929	8,248,277	21,248,079	22,062,202	43,310,282
Assets Intangible							
Software	338	–	–	117	220	684,143	684,363
Total	338	–	–	117	220	684,143	684,363

[2] **Details of Reserve**

(Yen in Thousands)	Beginning Balance	Current Increase	Current Decrease Consumption	Release	Ending Balance
Contents					
Allowance for doubtful receivables	1,606,563	2,737,943	944,537	662,025	2,737,943
Reserve for bonuses allowance	238,780	228,423	201,405	37,375	228,423
Residual value risk provision	2,109,191	2,947,219	304,358	1,804,833	2,947,219

Note: “Release” in “Allowance for doubtful receivables” and “Residual value risk provision” is unused provision that are charged in the prior year, and it should be counter-balanced by increase in the current year provision charged.

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[3] Details of Sales, General and Administrative Expenses

(Yen in Thousands)			
Account	Amount	Remark	
Salary	1,063,096		
Employee Welfare	252,494		
Provision for Employee Bonus	191,048		
Pension	63,033		
Traveling and Transportation	93,400		
Advertising	53,921		
Dealer Incentive	801,685		
Entertainment	2,858		
Meeting	1,743		
Membership Fee	3,302		
Car Lease Fee, Gas, Oil	70,927		
Office Supply	3,221		
Telephone and Fax	1,043		
Lawyers, Auditors, Consultants Fee	70,609		
Outsourcing Service Fee	298,633		
Bank Charge	91,416		
Software Amortization	117		
IT Cost	469,323		
Maintenance	10,719		
Office Maintenance and Utilities	8,989		
Office Rent	121,628		
Depreciation	7,766		
Insurance	2,581		
Taxes and Dues	273,173		
Provision of Allowance for Doubtful Accounts	2,075,917		
Bad Debt Expense	115,936		
Total	6,148,589		

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[1] Details of directors who serve as executive director of other companies

(As of December 31, 2019)		
Title	Name	Responsibility/position
Director	Ritu Chandy	Director and Chairman of the Board of Directors, BMW Australia Finance Ltd. / Director, BMW Credit (Malaysia) Sdn Bhd / Director, BMW Lease (Malaysia) Sdn Bhd / Non-executive Director, BMW India Financial Services Private Limited. / Director, BMW Financial Services Singapore Pte Ltd. / Director, BMW Leasing (Thailand) / Director, THEPSATRI / Supervisor, Herald International Financial Leasing Co., Ltd.
Corporate Auditor	Hirohisa Sugino	Finance, Accounting, Tax and Custom Manager, Finance & Administration Division, BMW Japan Corp.

[2] Details of transactions having conflict of interest with the controlling shareholder

(Yen in Thousands)			
Category	Name	Transaction detail	Amount
Controlling shareholder	BMW Japan Corp.	Operating activity	Interest and commission received
			Operating expenses
			5,760,235
			209,593

(The original audit report is in Japanese. This English translation is for readers' convenience and reading this translation is not a substitute for reading the original audit report in Japanese.)

March 13, 2020

To the Board of Directors of BMW Japan Finance Corporation

PricewaterhouseCoopers Aarata LLC

Naoaki Kobayashi, CPA
Designated limited liability Partner
Engagement Partner

We have audited, pursuant to Article 436 (2) (i) of the Companies Act of Japan, the accompanying financial statements, which comprise the balance sheet, profit and loss statement, statement of changes in net assets and notes to the financial statements, and the supplementary schedules of BMW Japan Finance Corporation (hereinafter referred to as the "Company" for the 31st fiscal year from January 1, 2019 to December 31, 2019.

Management's Responsibility for the financial statements and the supplementary schedules

Management is responsible for the preparation and fair presentation of the financial statements and the supplementary schedules in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of the financial statements and the supplementary schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements and the supplementary schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the supplementary schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements and the supplementary schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements and the supplementary schedules in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statements audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as examining the overall presentation of the financial statements and the supplementary schedules. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements and the supplementary schedules referred to above present fairly, in all material respects, the financial position and its financial performance for the period covered by the financial statements and the supplementary schedules in accordance with accounting principles generally accepted in Japan.

Conflict of Interest

We have no interest in or relationship with the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.