ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT REPORT

Siemens Bank GmbH, Munich

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for the fiscal year
from October 1, 2019 to September 30, 2020

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Management report

of Siemens Bank GmbH, Munich,
for the period from October 1, 2019 to September 30, 2020

1 Business performance overview

1.1 Business activities of Siemens Bank GmbH

Siemens Bank GmbH, Munich (hereinafter: Siemens Bank) is part of the Financial Services unit in the Siemens Group. Through the business activities of Siemens Bank, Siemens AG, Berlin and Munich (hereinafter: Siemens AG) as the sole shareholder of Siemens Bank broadened the range of sales-financing products in its Financial Services unit, increasing flexibility in group finance and optimizing its risk management.

The Siemens Bank business model remains unchanged and, as in previous fiscal years, consists of three pillars:

- Lending and guarantee business: This is the core business of Siemens Bank, focusing on the provision of medium- to long-term financing for corporate clients, project companies and public-sector borrowers. The product portfolio currently comprises, in particular, corporate loans, project finance, promissory note loans, and revolving loan facilities. Siemens Bank operates in both the primary market and the secondary market for loans. Guarantees are issued in particular in the context of project financing, but currently play a subordinated role.

- Deposit and treasury business: The deposit business focuses on the receipt and investment of overnight money and time deposits from companies in the Siemens Group and selected third-party institutions. The treasury business encompasses Group financing activities and asset liability management, including the management of a portfolio of highly liquid assets. Asset liability management ensures that the credit business is funded by equity and deposits.

- Fee business: Key resources for managing financial risk and processing financial transactions in the Siemens Group are pooled within Siemens Bank. These resources not only support the Bank's own banking operations, they are also offered to Siemens AG, its subsidiaries, and selected third parties.

Siemens Bank does not undertake retail banking or maintain a trading book.

1.2 Economic environment

In its lending business, Siemens Bank offers its products primarily to customers in Europe, Asia and Australia. In view of this strategic focus, economic trends in these regions have a special significance for the business performance of Siemens Bank.

The downturn in economic development expected in last year's forecast initially materialized in fiscal 2020. Quarterly gross domestic product in the OECD countries rose by only 0.2 % in the first quarter of the fiscal year compared with the previous quarter, while in the second quarter it even fell by 1.9 % compared with the previous quarter. The extent of this development varied in the major markets. In the European Union, gross domestic product in the reference periods changed by 0.1 % and (3.3) % respectively, while in China gross domestic product changed by 1.3 % and even (10.0) % respectively. This initially constituted a continuation of the developments of the previous year, which was marked in particular by uncertainties surrounding international trade disputes and geopolitical conflicts.

The second quarter of the fiscal year also saw the first effects of the COVID-19 pandemic. Starting in China and Asia, the virus rapidly spread globally, forcing lockdowns and bringing many economic activities to a standstill in almost all regions and countries worldwide. This led to an unprecedented 10.6 % quarter-on-quarter decline in quarterly gross domestic product in OECD countries, particularly in the third quarter of the fiscal year. While this decline was particularly strong in the European Union, at 11.4 %, China, which was severely affected by the COVID-19 pandemic a few months before Europe, has already shown a clear economic recovery.

This partly quite significant economic recovery compared with the first months of the pandemic with lockdowns also reached Europe and other Asian countries in the last quarter of the fiscal year. However, only in China has the economic recovery measured in terms of industrial production returned to pre-crisis levels. In all other countries, economic activity has continued to decline, in some cases significantly, compared with the same periods of the previous year. Thanks to the clear countermeasures taken by governments, a longer-lasting economic slump caused by the COVID-19 pandemic could be prevented for the time being – at least from a current perspective.

Overall, Siemens Bank's fiscal 2020 was divided into two parts: The first months of fiscal 2020 were characterized by the continuation of the economic uncertainties of the previous year, but a still very favorable lending environment. The second part of the fiscal year was, however, marked by the COVID-19 pandemic, i.e. a sharp economic decline and subsequent recovery, although the economy has not yet returned to pre-crisis levels.

According to Siemens Bank's observations, this economic development also strongly influenced the lending and financing markets. Refinancing activities, particularly in the market for corporate loans, came to a virtual standstill for several months, as evidenced, among other things, by a significant decline in new business and early terminations compared with the previous year and with Siemens Bank's expectations for fiscal 2020.

Apart from the current impact of the COVID-19 pandemic, Siemens Bank continues to observe intense competition in the market for project and investment financing, as interest rates remain at historically low levels and the lending market is very liquid, particularly in the eurozone. Siemens Bank sees a similar situation regarding market and competition in many Asian markets. The high liquidity in the market and the emergence of new competitors outside the traditional banking segment as investors in project financing and corporate financing in the form of insurance companies, pension funds or alternative investment funds mean that the pressure on margins in the lending markets remains strong. Particularly against the background of the increased importance of sustainability issues, demand for financing that is to be evaluated favorably under the ESG criteria (ESG: Environmental, Social, Governance) will increase, which will put further pressure on interest margins.

Although longer-term and therefore less cyclical planning cycles are regularly relevant in the financing of projects and equipment investments, and although project financing in the infrastructure sector in particular is proving to be quite resilient to credit defaults even in the context of the COVID-19 pandemic, Siemens Bank continues to observe very high competitive pressure and thus a very challenging market environment despite the effects of the COVID-19 pandemic. Increased uncertainty about future economic developments also led to greater restraint in investments in plant and equipment. In this environment, it remains difficult to generate attractive risk-return profiles. Nevertheless, the broadly based geographical positioning at Siemens Bank enabled the Bank to offset weak trends in individual markets or industries by exploiting opportunities in other markets.

The COVID-19 pandemic also poses major challenges for banks’ internal processes and controls, as many employees use mobile working options or work from home. Nevertheless, throughout the fiscal year, Siemens Bank succeeded in implementing all critical processes and controls without restrictions. The Bank was not affected by any significant COVID-19-related absence of staff or failure of IT infrastructure.

1.3 Regulatory developments

The CRR II (Capital Requirements Regulation CRR) and CRD V (Capital Requirements Directive) package adopted by the EU Commission in 2019 will introduce new regulatory requirements, most of which will apply from June 2021. The CRR II package includes the final implementation of the Basel Committee on Banking Supervision’s requirements for the introduction of binding minimum values for the leverage ratio and the net stable funding ratio. In addition, the first contents of Basel IV must be implemented, such as new large exposures regulations and new disclosure obligations.

Subsequently, the requirements for the implementation of a further Basel IV package with the central elements of the changed calculation elements for lending, market and operational risks are expected to be specified.

In order to be able to implement the requirements of the reform packages promptly, Siemens Bank set up an implementation project during the past fiscal year.

Also with regard to the regulatory environment, the 2020 fiscal year was marked by the COVID-19 pandemic. In order to support the economy and mitigate the effects of the COVID-19 pandemic, the EU Commission, inter alia, adopted amendments to the CRR and the Basel Committee on Banking Supervision (BCBS) postponed the introduction of the Basel IV adjustments by one year. With effect as of September 30, 2020, Siemens Bank implemented the new reporting requirements for COVID-19 under the 2020/07 guideline of the European Banking Authority (EBA) and its adoption by the German Federal Financial Supervisory Authority (BaFin) of August 3, 2020.

Siemens Bank will implement the “Guidelines on Outsourcing” of the European Banking Authority (EBA) as transposed into national law as part of the implementation of the new revised MaRisk. Activities to analyze and implement the increasing regulatory requirements for banks’ IT continue to have a high focus, especially those stemming from the “Banking Supervisory Requirements for IT” (BAIT), the EBA “Guidelines on Information and Communication Technology and Security Risks,” but also the “Technology Risk Management” (TRM) framework of the Monetary Authority of Singapore (MAS). These activities are performed in close cooperation with the central IT service provider, Siemens Financial Services GmbH.

Further developments in European and national legislation are continuously monitored as part of Siemens Bank’s Compliance Program.

The effects of a possible Brexit on Siemens Bank and the regulatory requirements are also closely analyzed by a working group.

The new Siemens Bank branch founded in Singapore in March 2017 is required to comply with local regulatory requirements and reporting obligations in the Monetary Authority of Singapore (MAS) reporting system. The local regulatory requirements are based on the Basel III framework and are essentially comparable with the European requirements. The monitoring and development of changes and adjustments to local regulatory requirements is also part of Siemens Bank’s Compliance Program.

In May 2018, MAS published the final “Notice Revised MAS 610/1003.” The monthly report 1003 serves MAS as a statistical basis for the balance sheet evaluation and is extended substantially under the new standard. Due to the COVID-19 pandemic, the start of the reporting obligation was postponed. The Notice will now be applicable from July 2021 onwards, with a prior mandatory six-month test phase.

Siemens Bank will address the requirements of the Singapore Banking Act, which was revised in 2020, in a separate project.

1.4 Business performance

From the second quarter of the fiscal year, fiscal 2020 was marked to a large extent by the effects of the COVID-19 pandemic. Against this background, the portfolio in the core lending business did not grow to the extent expected. Nevertheless, profitability of the portfolio remained high, which is reflected in a slight increase in net interest income and stable additions to allowances for losses on loans and advances. While the effects of the COVID-19 pandemic have not led to loan defaults, the high level of liquidity in important core markets and the associated pressure on interest margins and achievable yields have led to a slowdown in the increase in net interest income.

Due to the stable lending portfolio, the good development of the operating result before risk provisions and the stable additions to allowances for losses on loans and advances, management is satisfied with the course of business in fiscal 2020. Although this development is somewhat below Siemens Bank's expectations, it should also be appreciated against the background of the COVID-19 pandemic.

Net assets

The net assets of Siemens Bank changed only marginally in fiscal 2020.

The volume of business in the **core lending business** (including guarantees) rose only marginally by 1 % in the 2020 fiscal year, following strong growth of 14 % in the previous year.

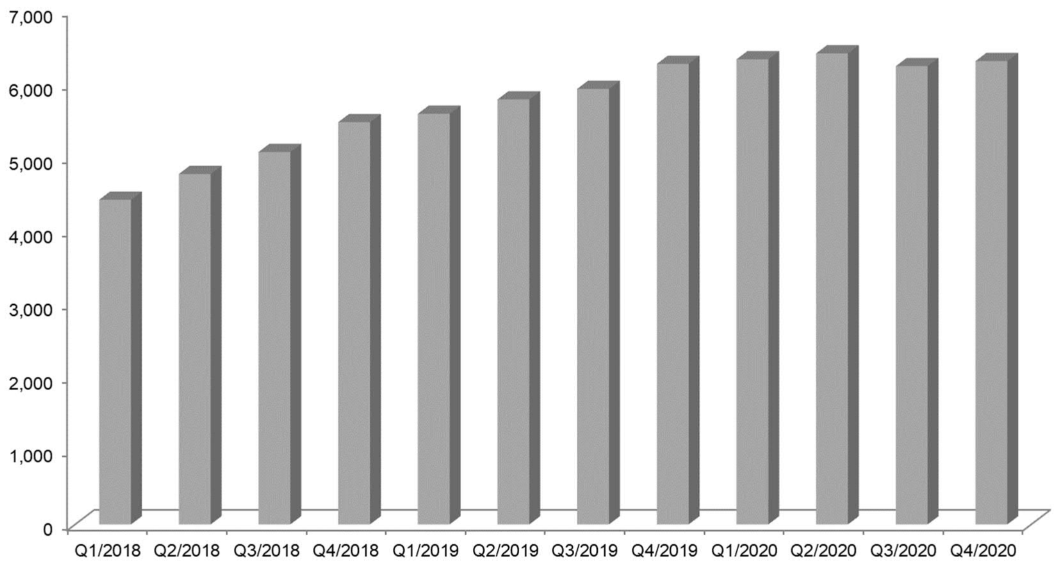

Figure 1: Development of loans and advances to customers in the lending business (€ million)

After significant growth in fiscal 2018, which was mainly due to the activities of the Singapore Branch opened in the previous year, Siemens Bank succeeded in continuing this growth course at a more moderate level in fiscal 2019. In its growth, Siemens Bank placed great emphasis on broad diversification of its lending portfolio by industry and region, for instance by further expanding its regional presence in Asia and Australia.

During the COVID-19 pandemic, Siemens Bank succeeded in keeping its lending portfolio almost unchanged in fiscal 2020. Following a moderately positive growth trend in the first two quarters of the fiscal year, the significant slowdown in economic momentum due to the crisis was reflected in a significant decline in new business, partially offset by lower early terminations, particularly in the third quarter of the fiscal year. In this difficult market environment, Siemens Bank consistently focused its business on attractive opportunity-risk profiles and the avoidance of excessive credit risk.

The fourth quarter of the fiscal year saw the beginning of an economic recovery. New business in particular grew significantly. This positive trend was also reflected in the very high level of irrevocable lending commitments amounting to €1,317 million (previous year: €893 million). Contingent liabilities from guarantees existed only to a limited extent at the end of the fiscal year (€56 million; previous year: €33 million) and are part of project financing granted.

This means that, even though the lending portfolio did not grow to the extent originally planned, management is satisfied with the development of this portfolio against the special background of the COVID-19 pandemic.

The focus of the lending portfolio in fiscal 2020, as in the previous year, was on activities in the areas energy (renewables, energy management), infrastructure and health. In addition to project financing, Siemens Bank has a corporate lending portfolio.

Siemens Bank focuses on offering financing solutions to the customers of Siemens AG and its subsidiaries. A large proportion of financing agreements was signed with existing customers of Siemens AG and its subsidiaries, thereby supporting the activities of the Siemens Group. Siemens Bank also enters into financing agreements with Siemens' target customers, in emerging Siemens markets, and even in situations where there is no Siemens connection at all as long as there are business opportunities with an attractive risk-return profile in the lending market concerned.

In addition to its own lending portfolio described above, Siemens Bank also holds loans on a fiduciary basis whose risks are fully collateralized by cash.

In the **deposit and treasury business**, the Group financing portfolio, which forms an integral part of the loans and advances to customers, has decreased from €235 million to €133 million since the end of the previous fiscal year. The provision of collateral in cash means that Siemens Bank does not bear any credit risk in connection with this business. Compared with the lending business discussed above, this lending portfolio clearly is of minor significance within the business model of Siemens Bank as a whole.

Within the deposit and treasury business, the development of liquidity investments – which are reported under loans and advances to banks, credit balances with central banks, private bonds as well as under loans and advances to customers – is closely linked to the economic and regulatory requirements relating to liquidity control. In recent years, Siemens Bank has built up a highly liquid assets portfolio as a liquidity reserve and for liquidity control. A major part of this asset portfolio is in short-term promissory note loans from investment-grade issuers. With this asset portfolio, Siemens Bank intends to achieve positive income contributions and a high level of security in addition to compliance with commercial and legal requirements regarding liquidity control.

The significant increase in the third and fourth quarters of fiscal 2020 was due to short-term investments by the Siemens Group. Compared with the previous year, the portfolio of highly liquid assets for purposes of liquidity reserve and liquidity therefore increased by 36 % (previous year: increase by 9 %). This exceeded Siemens Bank's expectations, but, in the Bank's view, is not a structurally sustainable increase in liquidity-related investments.

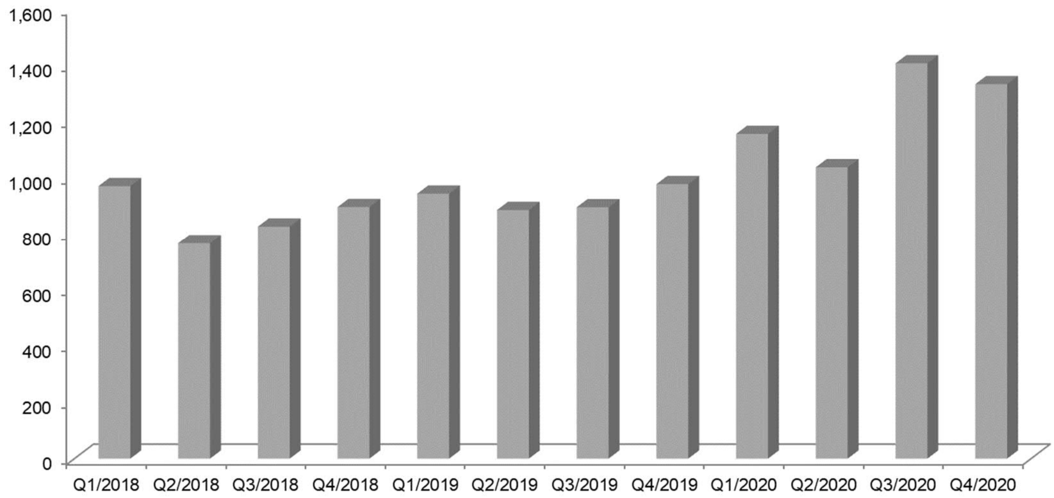

Figure 2: Change in liquidity-related investments in the deposit and treasury business (€ million)

Financial position

The business activities of Siemens Bank are largely refinanced by deposits and equity. Here, 12 % (previous year: 13 %) of the recorded business volume of Siemens Bank is financed by equity. Siemens AG as the sole shareholder of Siemens Bank has paid in a share capital of €5,000 thousand (previous year: €5,000 thousand) and capital provisions in the form of other payments into equity amounting to €995,000 thousand (previous year: €995,000 thousand). In fiscal 2020, the Siemens Bank management also newly allocated €25,000 thousand to the fund for general banking risks pursuant to section 340g HGB in order to further strengthen the Bank's capital base.

Although by far the largest proportion of deposits is made by Siemens AG and its subsidiaries, Siemens Bank also holds deposits of customers from outside the Group. However, Siemens Bank does not accept retail banking deposits. Where deposits are used directly for the purpose of funding the lending business, they are matched as far as possible with the lending currencies, in accordance with the expected repayment profiles so that the exposure of Siemens Bank to currency and maturity transformation risk is very limited.

Siemens Bank's liquidity situation is characterized by a large portfolio of assets with short-term availability. Siemens Bank also has funding options available in particular via Deutsche Bundesbank and Siemens AG. Liquidity is thus always ensured from the point of view of Siemens Bank.

Currently, Siemens Bank has not issued any bonds on capital markets, nor has it placed any promissory note loans or other bonds.

Furthermore, Siemens Bank has not made any substantial capital investments or financial investments in the 2020 fiscal year.

Results of operations

On the one hand, fiscal 2020 was characterized by an almost unchanged lending portfolio, which is nevertheless reflected in slightly improved net interest income after the significant growth of the previous year. On the other hand, additions to allowances for losses on loans and advances are only necessary at the level of previous years, despite the challenges of the COVID-19 pandemic.

Overall, Siemens Bank was able to continue the positive development of the 2019 fiscal year, posting its highest net operating income before risk allowances since the Bank's formation, despite the extremely challenging market environment.

(€ million)	2020	2019	2018	Delta 2020
Net interest income	**161.8**	**153.9**	**135.5**	*5%*
Net fee and commission income	**31.6**	**29.3**	**25.8**	*8%*
General administration expenses	**-71.7**	**-67.8**	**-62.0**	*6%*
Other income and expenses, net	**-2.8**	**-1.6**	**-0.5**	*75%*
Operating income before allowances for losses on loans and advances	**118.9**	**113.8**	**98.8**	**4%**
Allowances for losses on loans and advances	**-20.2**	**-21.8**	**-21.9**	*-7%*
Net operating income	**98.7**	**92.0**	**76.9**	**7%**

Figure 3: Components of Siemens Bank income

Net interest income at Siemens Bank arises from the spread between interest income on loans and investments on one side and funding-related interest expense on the other. Interest terms also reflect the effect of inflation. The net interest margin contribution from the lending business generates most of the net interest income. Liquidity investments in the deposit and treasury business normally generate lower interest margins. As the portfolio in the core lending business remained virtually unchanged in the 2020 fiscal year following strong growth in the previous year, the increase in net interest income reflects the increased average portfolio volume. Nominal net interest income is also heavily dependent on the volatility of exchange rates during the year, as a significant portion of the portfolio is denominated in USD, GBP and AUD. The effects of the main currencies partially offset each other in the 2020 fiscal year. Overall, Siemens Bank was able to continue to generate attractive risk-return profiles in the lending business, as, also against the background of a persistently low interest level in important core markets, new loan transactions were only entered into selectively, and the pursued business strategy was not purely volume-driven. Since the portfolio in the lending business grew significantly less than expected in fiscal 2020, the increase in net interest income is also below Siemens Bank's expectations. In addition, the high competitive pressure in the lending markets has tended to further reduce the interest margins to be achieved.

In spite of a continuous growth by 8 % (previous year: 14 %), **net fee and commission income** still is of minor significance for Siemens Bank's results of operations. Siemens Bank earns fee and commission income primarily by providing risk-management and processing services for Siemens AG, its subsidiaries and associated companies. The costs incurred in providing the services are reported under general administrative expenses. In the 2019 fiscal year, Siemens Bank took over risk-management activities for the Siemens Group from Siemens Treasury GmbH and at the same time, to a lesser extent, transferred risk-management activities for the Financial Services unit to Siemens Financial Services GmbH. The continuous increase in net commission income was in line with Siemens Bank's expectations.

A slightly smaller portion of 51 % (previous year: 54 %) of **general administrative expenses** at Siemens Bank is attributable to personnel expenses. Siemens Bank employees are not only responsible for carrying out the banking operations as such, but also for providing risk-management and processing services for Siemens AG, its subsidiaries and selected third parties. The other administrative expenses are largely accounted for by the purchase of services from Siemens AG and its subsidiaries as well as from third parties. This purchase of services also includes all IT services required by Siemens Bank. The constant increase in general administrative expenses during the last three fiscal years is due to the continuous expansion of the Siemens Bank business activities as well as salary increases and higher costs for some service providers. Applying strict cost discipline, Siemens Bank was able to limit the effects of the additional structural costs caused by the business expansion of the last few years. The relative increase in general administrative expenses was lower than the relative increase in net interest income, i.e. it rose within the range expected by Siemens Bank. Overall, the level of administrative expenses was below the Bank's expectations, which was mainly due to lower than expected personnel expenses.

Other net operating income is for the most part determined by income from currency valuations. The impact of currency effects on the Bank's profitability is in particular limited through the funding of loans in foreign currencies in the same currency. In fiscal 2020, Siemens Bank reports a slightly negative currency income in relation to the total portfolio; last year, Siemens Bank reported a slightly positive currency income in relation to the portfolio.

Expenses for additions to **allowances for losses on loans and advances** were unchanged in fiscal 2020 compared with the previous year and, despite the challenges of the COVID-19 pandemic, were significantly lower than Siemens Bank had expected at the beginning of the COVID-19 pandemic. Since the lending portfolio remained almost unchanged, there was nevertheless a significant increase in allowances for losses on loans and advances before provisions for general banking risks. On the one hand, the volume of problem loans has increased. On the other hand, Siemens Bank has significantly increased allowances for losses for latent credit risk, in order to continue to take into account the unpredictable market environment. The adjustment of provisions for latent credit risk was carried out within the framework of the method of provisioning for latent credit risks applied for the first time in the 2018 fiscal year, which takes greater account of expected losses and default rates. During the COVID-19 pandemic, the structure of the lending portfolio – a high proportion of project financing in the infrastructure sector and of corporate lending transactions with equity sponsors from the private equity sector – predominantly proved to be resilient to credit defaults. In addition, the continued good credit quality of the receivables portfolio and the broad diversification by sector and region also contributed to the fact that the balance sheet allowances for losses on loans and advances for large parts of the lending portfolio were very moderate overall in the 2020 fiscal year.

The **net operating income** equates to the net income in accordance with the German Commercial Code (HGB) that Siemens Bank transfers to Siemens AG under the existing profit-and-loss transfer agreement, after deduction of additions to the fund for general banking risks and of income taxes.

As in the previous fiscal year, the net operating income before tax reported here is Siemens Bank's key **financial performance indicator**. The increase in this performance indicator is slightly below Siemens Bank's expectations, mainly due to slower business volume growth and weaker development of net interest income. This was not over-compensated for by the development of allowances for losses on loans and advances, which were in line with expectations, and the slightly lower than expected increase in general administrative expenses.

Siemens Bank also determines the return on risk-adjusted capital as an additional financial performance indicator. Here, the net operating income after standardized income taxes and before additions to and/or dissolution of provisions and/or special items for general banking risks (in fiscal 2020: €69.1 million; previous year: €73.5 million) is considered in relation to the average economic capital, which amounts to €506.5 million in fiscal 2020 (previous year: €465.5 million). As of September 30, 2020, this indicator had a value of 13.6 % (previous year: 15.8 %), and was thus slightly below the target range of between 15 % and 20 % which was unchanged year-on-year.

2 Risk report

2.1 Risk strategy

Corporate management at Siemens Bank adheres to the targets and requirements of the Bank's business strategy. It is not possible to implement the Bank's business strategy and to achieve the specified target returns without consciously taking on risk. Siemens Bank's risk strategy is based on the requirements of the business strategy and constitutes the framework for identifying, assessing, managing and monitoring risk within Siemens Bank.

2.1.1 Objective

The risk strategy defines details of the requirements under the business strategy in relation to the strategic alignment and the individual types of risks, while at the same time taking into account the overall objectives of the business strategy and the risk appetite of Siemens Bank. This forms the basis on which Siemens Bank determines its guidelines for risk management and the target system for risk strategy at the Bank. The most important risk principle is compliance at all times with both internal capital adequacy and liquidity requirements. Top priority is also given to avoiding concentration risk and ensuring compliance with statutory and regulatory requirements. An essential element of the risk strategy implementation is to specifically identify, measure, manage, monitor and report risks that Siemens Bank has already taken on, together with any future risks that may occur. This is also the basis of the integrated management of risk and return targets within the framework of the integrated risk-return management.

Siemens Bank follows a clearly defined process for developing its risk strategy. Based on the business strategy, the risk strategy is adjusted either as required or at regular intervals. The basis for the risk strategy is a detailed analysis of risk factors within Siemens Bank using a risk inventory. The risk inventory defines and analyzes the principal types of risk and specifies how these risk types are to be modeled. The results of the risk inventory are used as a basis for the determination of the objectives and measures relating to the risk strategy that are monitored as part of the overall risk report.

2.1.2 Regulatory requirements

The regulatory requirements for risk management, capital adequacy and liquidity together form the regulatory framework for the risk management system at Siemens Bank. In particular, Siemens Bank ensures that it complies at all times with the requirements of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive IV (CRD IV) as well as the related regulations and circulars. This includes continuous compliance with and monitoring of the equity, large obligor, liquidity and compensation standards as well as the German Minimum Requirements for Risk Management at Banks (MaRisk_BA). Also, the Bank ensures continuous compliance with the regulatory requirements for the operations of its branch offices.

2.2 Risk management and organization

Siemens Bank has put in place a comprehensive risk-management system in order to ensure that the measures aimed at achieving the objectives in the business strategy and risk strategy are properly implemented. Key components of the risk management system include the internal capital adequacy concept, liquidity risk management and the implementation of an efficient internal control system.

2.2.1 Organizational structure

The processes, controls and responsibilities with respect to risk management are governed by the written rules and regulations for Siemens Bank. These rules and regulations document, in particular, the processes for granting loans, further processing of loans, monitoring of loan processing, intensified and problem obligor management, risk classification and review of credit ratings together with the processes for asset liability management. Decision-making authority is governed by the Siemens Bank authority rules and regulations.

The general frameworks for internal capital management, management and monitoring of individual types of risk and for the methods, processes and limit structure within Siemens Bank are stipulated in the Bank's risk documentation and organizational documentation. The risk documentation and the organizational documentation are available to all employees of Siemens Bank.

Segregation of functions

Within the organizational structure of Siemens Bank, there is a strictly defined segregation of front office and back office in terms of both functions and disciplinary arrangements, and this segregation applies right up to the Management Board level. The areas covered by the Chief Financial Officer (CFO) and the Chief Risk Officer (CRO) are organized entirely within the back office, whereas the areas covered by the Chief Executive Officer (CEO) are assigned in full to the front office. This strict segregation also applies to the London and Singapore Branches. The authority rules and regulations specify that the back office may not be overruled.

Operational management of risk at Siemens Bank is carried out within the risk strategy framework and subject to the limits specified by the back office. The risk strategy framework and risk management limits are defined by the back office, whereas the front office is responsible for the operational implementation of risk management. Operational risk management is controlled by a risk monitoring unit that is independent in terms of both functional and disciplinary arrangements and forms part of the back office in the organizational structure. The responsibilities of the risk monitoring unit include comprehensive analysis and monitoring of the risks accepted by Siemens Bank. Risk analysis includes identifying risks taken on by the Bank, developing suitable methods for measuring and quantifying risk, and analyzing the current risk situation. The analysis of the risk situation is based on the requirements of economic internal capital adequacy management. Risk monitoring comprises activities to quantify and validate the risks taken on by the Bank, activities to monitor the authorized limits and internal capital adequacy and activities associated with risk reporting.

Committees

The Siemens Bank Risk Committee is the central committee responsible for implementing integrated risk-return management and risk management within the meaning of section 25a (1) of the German Banking Act (KWG). In particular, the Risk Committee supports the Management Board in developing and adopting the risk strategy as well as determining the internal capital adequacy concept. The Risk Committee is responsible for the guidelines on lending portfolio management in that it specifies appropriate action and sets out the requirements for managing operational risk. In particular, the Risk Committee is responsible for managing and monitoring the credit portfolio. Voting members of the Risk Committee are the CEO, CFO and CRO of Siemens Bank.

Authority in relation to credit decisions on significant loan exposures is vested in the Credit Committee in accordance with the authority rules and regulations. The Committee is responsible for exercising this authority in accordance with these rules and regulations and with due consideration of the Siemens Bank risk strategy. Voting members of the Credit Committee are CEO, CFO and CRO as well as the head of the credit business of Siemens Bank.

The Asset Liability Management Committee (ALM Committee) is responsible for managing and limiting market, liquidity and funding risk. Ultimate decision-making authority in all issues related to asset liability management, and therefore also related to the management of market, liquidity and funding risk, lies with the ALM Committee. The operational management of market, liquidity and funding risk is carried out by the Treasury department at Siemens Bank. This function forms part of the front office in the organizational structure. Voting members of the ALM Committee are the CEO, CFO and CRO of Siemens Bank and the management of the Singapore Branch for matters relating to the Singapore Branch.

Risk monitoring

The Risk Controlling & Analytics unit, which reports to the CFO, has been assigned principal responsibility for risk monitoring. Within this unit, the Credit Risk Controlling department is responsible for monitoring credit risk, and the Pricing & Integrated Risk Controlling department is responsible for monitoring market, liquidity and operational risk as well as for matters relating to integrated risk-return management. The head of Risk Controlling & Analytics sits on the Risk Committee, the ALM Committee and the Credit Committee and also participates in the meetings of the Outsourcing Committee and of the Compliance Committee and is therefore comprehensively involved in all aspects of decision-making processes relevant to risk policy. Siemens Bank Risk Controlling supports and comprehensively advises the Management Board in the development and implementation of the risk strategy. This includes all phases of creating the risk strategy, including the risk inventory, as well as designing the internal capital adequacy concept. Based on the risk strategy and the internal capital adequacy concept, Risk Controlling supports the Management Board in implementing an effective and efficient limit structure and general limits for risks. The key responsibilities of the departments comprised in Risk Controlling include identifying risks that are relevant to Siemens Bank (operational risks are identified in consultation with the respective department managers, who identify and deliver the relevant information about their departments to Risk Controlling) and measuring and assessing risks on a daily or regular basis. Also, Risk Controlling monitors the utilization of defined limits, including escalating limit breaches, as well as reporting to the Management Board, and preparing the overall risk profile. In addition, Risk Controlling is assigned the authority to decide on the models and methods used in these controlling tasks, including their ongoing refinement and validation. The Risk Committee must be informed of material changes to these methods.

A key instrument for ascertaining the appropriateness of the risk management system and the corresponding internal control system is the internal audit function. The Management Board has appointed an internal audit officer, who reports directly to the Management Board and is responsible for ensuring that the internal audit function fulfills its responsibilities properly. The framework of the internal audit function’s tasks is described in a rolling three-year audit framework plan that is prepared using a risk-based approach and is updated yearly. The operational execution of audits for which the internal audit function is responsible is outsourced to the internal audit function of Siemens AG. The findings of the audits are summarized in quarterly and annual reports prepared in consultation with the internal audit officer and then presented to the Management Board and the Supervisory Board.

A further essential element of the internal control system is the compliance function of Siemens Bank. Siemens Bank has pooled the functions of the compliance officer and of the anti-money-laundering officer in one central function. This central function, which includes anti-money laundering, fraud prevention and compliance, reports directly to the Management Board of Siemens Bank and has the authority to issue binding instructions – without restriction regarding the issues within its area of responsibility. The function assesses compliance with the internal regulations relating to anti-money laundering and other criminal offenses as well as further compliance-relevant, company-specific provisions. It also monitors compliance with these provisions, regulations and other requirements and supports and advises the Management Board and the business units regarding this compliance. Regarding further compliance-relevant internal provisions such as regulatory questions or implementation of MaRisk, the compliance function is assisted, in particular, by Risk Controlling and Regulatory Reporting. Regardless of the superordinate role of the compliance function, the members of the Management Board and the business units remain fully responsible for compliance with all legal requirements and other regulations. The central function reports to the Management Board on a quarterly basis as well as in a yearly comprehensive compliance report, listing its activities and, where relevant, highlighting any identified deficiencies and measures implemented for rectifying those deficiencies. The central unit also prepares the annual money laundering report.

Risk reporting

Within Siemens Bank, risk reporting to the Management Board, Supervisory Board and the Risk Committee constitutes part of risk controlling; reports are submitted both on a regular basis and ad hoc as required.

The central risk reporting tool is the quarterly overall risk report, which includes a comprehensive internal capital adequacy assessment and detailed reports on individual risks as well as the risk capital planning. The report on internal capital adequacy is based on a comprehensive internal capital adequacy assessment, which includes an analysis of the current internal risk capital requirement in both normal and stress scenarios.

The overall risk report is complemented by regular, standardized reports on default risk, market risk, liquidity risk, funding risk and operational risk as well as quantifiable, nonmaterial risks.

Default risk is largely reported within the context of the monthly credit risk report. Reports focus on the economic and regulatory capital requirement for the credit risks taken on by the Bank and on a detailed portfolio analysis regarding concentration risk incurred by the Bank. The analysis of concentration risk includes country risk, industry risk, concentrations in particular credit-rating categories and concentrations in individual obligors.

Market risk is reported monthly as well as daily. The focus of the monthly reports is on the economic capital requirement for the market risk taken on by the Bank. The daily reports focus on the monitoring of the operational value-at-risk limits.

The reporting of liquidity risk is performed monthly and through the daily liquidity gap profile. Funding risk is also reported daily. Risk reporting is focused on the economic capital requirement for the funding risk taken on by the Bank, on monitoring the operational liquidity and funding limits and on the regulatory key indicators relating to the liquidity coverage ratio and the minimum liquid assets and, after its implementation in fiscal 2021, the net stable funding ratio.

The reporting of operational risks is part of the quarterly overall risk report. Losses in excess of €50,000 are reported on an ad hoc basis to the Management Board. Additionally, a detailed report is prepared showing the results of the yearly self-assessment as well as the resulting action plans. Implementation of the measures is monitored on a quarterly basis.

The reporting for nonmaterial, quantifiable risks, such as prepayment risk or business risk in the context of swings in the present value of interest margins, occurs monthly and is embedded in other reports such as the market risk report.

2.2.2 Internal control system for accounting processes

Objective

The objective of external financial reporting is both to determine the measurement of dividends and to provide information in the proper manner and by the specified deadline dates to the users of the annual financial statements and management report. Siemens Bank has established an internal control system for its accounting processes, the purpose of which is to ensure that external financial reporting is conducted in the proper manner and breaches of accounting standards are avoided.

Responsibilities

Regulatory & Finance is responsible for external financial reporting and for the internal control system related to accounting processes. This department reports to the CFO of Siemens Bank.

Processes and controls are also included in the auditing activities of the internal audit unit.

Procedures

The procedures and the internal control system for accounting processes are fully documented in process descriptions and work instructions. Accounting and valuation methods are described in the Siemens Bank accounting policy.

Generally accepted accounting and valuation principles are applied when preparing the annual financial statements and management report. The appropriateness of these principles is regularly reviewed.

As far as possible, automated IT-based accounting procedures are used in order to reduce operational risk when preparing financial statements. Any modifications in IT systems relevant to accounting are subject to standardized authorization and verification procedures. Suitable reconciliation activities and controls ensure the quality of the data processing. Manual entries are subject to additional process checks. A contingency plan has also been put in place to cover accounting processes.

Further development and quality assurance

The internal control system for accounting processes and the underlying guidelines and work instructions are reviewed for their appropriateness once per year and additionally if triggered by a particular event. A review is also carried out as part of the authorization process for new products to establish whether and to what extent the existing rules and regulations need to be modified.

Training plans have been defined for the employees in Regulatory & Finance. These plans are revised and updated periodically.

2.2.3 Integrated risk-return management and internal capital adequacy

Integrated risk-return management

The management of internal and regulatory capital adequacy requirements, the management of liquidity risk, monthly performance controlling and the management of costs arising in connection with internal and regulatory capital requirements form an integral part of integrated risk-return management at Siemens Bank. The management of internal capital is based on an economic capital adequacy approach in which economic capital is the key risk variable.

The monitoring and control of economic and regulatory capital adequacy enables the Bank to ensure on an ongoing basis that the risk taken on by the different fields of activity at Siemens Bank is at all times consistent with the available capital both at the overall bank level and within individual types of risk. The Management Board of Siemens Bank specifies the capital resources necessary for the Bank based on the business and risk strategies and in accordance with the defined target returns and strategic risk requirements. As part of the Bank’s internal capital adequacy activities, the Management Board ensures on a continuous basis that there is an appropriate ratio between the Bank’s risk profile and its available risk-taking potential.

Within the overall context of integrated risk-return management, economic risk capital management is complemented by the monitoring and control of liquidity risk. Siemens Bank may only take on liquidity risk within the risk tolerance parameters specified by the Management Board. The critical factor when specifying the risk tolerance and the associated limits is to ensure the solvency of Siemens Bank, even if a serious crisis should occur.

The costs of economic capital adequacy requirements are factored into pricing and are integrated into performance measurement. Key performance indicators of pricing are the Economic Value Added (EVA) and the Return on Equity (RoE) based on the economic capital (Return on Risk adjusted Capital, RoRaC).

Internal capital adequacy

Siemens Bank has drawn up a concept for monitoring its internal capital adequacy in order to ensure that it has sufficient capital and liquidity at all times as required by section 25a KWG. The Bank's Management Board reviews the internal capital adequacy concept on an annual basis and in the intervening period if warranted by a change in circumstances and modifies the concept where required and in compliance with the business and risk strategy. The modified concept is then approved by the Bank's Supervisory Board.

Siemens Bank applies a creditor-protection perspective ("gone concern" method) in its internal management and limitation of risk. The gone concern method is based on a comprehensive risk approach combined with a high confidence level, the primary objective of which is to provide effective protection for creditors. The confidence level is in this case based on Siemens Bank's current target rating of A/A-. This target rating means the target probability of surviving is 99.95% with a risk horizon of one year. In addition to the creditor protection perspective, Siemens Bank also pursues the objectives of the "normative perspective" as defined in BaFin's Guidelines Capital Adequacy – Regulatory Assessment of Capital Adequacy Concepts ("*Leitfaden Risikotragfähigkeit – Aufsichtsrechtliche Beurteilung von Risikotragfähigkeitskonzepten*") in 2018. The normative perspective combines the requirements of regulatory capital adequacy and internal capital adequacy with the objective of ensuring regulatory capital adequacy and integrated risk capital planning at all times.

Siemens Bank determines its risk-taking potential with a value-based approach in accordance with the BaFin circular Guidelines Capital Adequacy – Regulatory Assessment of Capital Adequacy Concepts ("*Leitfaden Risikotragfähigkeit – Aufsichtsrechtliche Beurteilung von Risikotragfähigkeitskonzepten*") from 2018. The risk-taking potential comprises partly regulatory tier 1 and tier 2 capital (together referred to as core risk-taking potential) and partly an adjustment for the hidden reserves and charges from the portfolio of Siemens Bank. Expected losses, potential costs from eliminating liquidity gaps and administration costs for the portfolio are also taken into account in the calculation. If the result is a negative amount, the core risk-taking potential is reduced by that amount. If the result is a positive amount, the amount is reduced by a risk buffer and is included in the internal risk adequacy calculation as additional risk-taking potential.

As of September 30, 2020, the risk-taking potential of Siemens Bank consisted of the following:

(€ million)	2020	2019
Tier 1 capital	1,000.0	1,000.0
Tier 2 capital	59.0	46.0
Additional risk-taking potential	505.1	480.6
Total risk-taking potential	**1,564.1**	**1,526.6**

Figure 4: Composition of the risk-taking potential

Internal capital adequacy is measured by comparing the economic capital requirement with the available risk-taking potential.

The Management Board allocates the available risk-taking potential to the individual types of risk, based on the Bank's business and risk strategies. This process of allocation is supported by a regular risk inventory. The risk inventory includes a comprehensive analysis of the risk factors in the respective business segments as well as a review of the related methods and models that are used. The individual risks are classified according to their materiality on the basis of these analyses as well as further appraisals.

Siemens Bank currently classifies the following types of risk as material:

- Default risk
- Market risk
- Liquidity risk (in the sense of risk of insolvency)
- Funding risk
- Operational risk

Additionally, the following nonmaterial risks are quantified separately.

- Prepayment risk
- Business risk in terms of net present value margin risk

These risks have an impact on the amount and fluctuation of the additional risk-taking potential, and are therefore considered together with the other non-material risks under the stress scenarios. Under the stress scenario, the risk-taking potential is reduced by losses of €46.2 million expected in the stress case.

As of September 30, 2020, the allocation of the risk-taking potential and the risk capital requirements are as follows:

(€ million)	2020		2019	
Risk-taking potential in stress scenario	**1,517.9**		**1,482.3**	
of which additional risk-taking potential in stress scena	458.9		436.3	
of which core risk-taking potential	1,059.0		1,046.0	
	Risk-taking potential	**Required risk capital**	**Risk-taking potential**	**Required risk capital**
Risk capital for operational risk	25.0	24.3	25.0	21.8
Risk capital for default risk	700.0	483.9	600.0	450.8
Risk capital for market risk	40.0	5.3	20.0	13.3
Risk capital for refinancing risk	60.0	29.3	30.0	21.5
Normal case	**825.0**	**542.9**	**675.0**	**507.4**
Risk capital for operational risk		27.6		24.4
Risk capital for default risk		714.5		671.8
Risk capital for market risk		8.0		20.0
Risk capital for funding risk		76.2		47.9
Risk capital for business risk		101.7		121.7
Risk capital for prepayment risk		0.0		0.0
Buffer for other nonmaterial risks		20.0		20.0
Stress case total	**1,517.9**	**948.0**	**1,482.3**	**905.8**

Figure 5: Allocation of the available risk-taking potential and risk capital requirement by risk type

The risk-taking potential in a stress scenario results from the risk-taking potential less additional losses in the stress scenario. The additional risk-taking potential in a stress scenario serves as extra risk-taking potential in order to cover nonmaterial risks as well as risks in a stress scenario. Only the core risk-taking potential is used to cover the material risks. To quantify the internal capital requirement for default risk, market risk, funding risk and business risk, Siemens Bank applies value-at-risk approaches with a confidence level of 99.95% and a risk horizon of one year. For prepayment risk, Siemens Bank uses a stress scenario with simulates that all variable-interest transactions from the lending business are prepaid on the reporting day. Operational risk is quantified using the basic indicator approach in accordance with CRR.

When determining the economic capital requirement, Siemens Bank does not assume that there will be any diversification effect between the individual risk types. Liquidity risk (in the sense of risk of insolvency) is not covered by risk capital as part of the internal capital adequacy analysis because there is no meaningful way in which this can be achieved. Instead, liquidity risk (in the sense of risk of insolvency) is managed by using a liquidity gap profile including a system of limits specified by the ALM Committee. These limits are derived from Siemens Bank's liquidity risk tolerance. Here, the system of limits is monitored, analyzed and reported holistically together with the CRR capital and liquidity requirements.

Other risk types currently classified by the Bank as nonmaterial – such as strategic risk, and model risk – are together covered by an overall safety buffer.

Utilization of the risk-taking potential in the stress scenario increased from €905.8 million to €946.0 million during the fiscal year, while the risk-taking potential under stress fell by €35.6 million. The highest utilization of risk-taking potential was at the end of the second quarter of the fiscal year.

Management is satisfied with the risk development in the past fiscal year, as the risk capital requirement rose only slightly more than the relative growth in the lending portfolio, and the impact of the COVID-19 pandemic on internal capital adequacy was only marginal. For fiscal 2021, Siemens Bank is forecasting that, based on the business and risk strategy, internal capital adequacy will be assured at all times both in the normal case and if the stress scenarios are taken into account.

Stress testing

In the context of internal capital adequacy, Siemens Bank has defined appropriate stress test scenarios for each material risk. The stress tests are aligned with the objectives and action plans defined in the business and risk strategies as well as the regulatory requirements in MaRisk. The implementation of stress tests is based on the Stress-Testing Policy agreed on by the Management Board. This Policy is reviewed and, if required, modified in response to circumstances, but, in any case, at least once a year. Internal methods for measuring material risks are used in implementing the stress tests. The input parameters for the various models are adjusted on the basis of both hypothetical and historical stress scenarios. The Bank analyzes both risk-specific scenarios and overarching scenarios that involve some or all of the risk types. Stress testing is integrated into the analysis of internal capital adequacy to enable the Bank to identify any need for action at an early stage and ensure internal capital adequacy even when tough market conditions prevail.

The required risk capital relating to the buffer for other, nonmaterial risks is reported as utilizing the full amount of the corresponding available risk-taking potential.

The most significant risk is default risk, which is also the main driver behind the increased risk-taking potential utilization in the stress case. This reflects Siemens Bank's business and risk strategies.

Regulatory capital adequacy

In addition to economic capital management within the context of internal capital adequacy and the management of liquidity risk, there is a second component of capital adequacy management within Siemens Bank, namely the monitoring and control of regulatory capital adequacy and of key liquidity ratios in accordance with the CRR.

As of September 30, 2020, the composition of regulatory capital at Siemens Bank was as follows:

(€ million)	2020	2019
Tier 1 Capital		
Paid-up capital instruments	5.0	5.0
Adjustments due to the requirements for prudent valuation	-1.9	-2.3
Capital reserves and other eligible reserves	995.0	995.0
	998.1	**997.7**
Tier 2 capital		
Total tier 2 capital before capital adjustment items pursuant to section 10 (2b) KWG	59.0	59.0
Adjustment items for tier 2 capital pursuant to section 10 (6) and (6a) KWG	0.0	0.0
	59.0	**59.0**
Total modified available capital pursuant to section 10 (1d) KWG	**1,057.1**	**1,056.7**

Figure 6: Composition of regulatory capital according to the final financial statements as of September 30, 2020 (previous year according to approved financial statements)

The regulatory capital corresponds to the core risk-taking potential for determining internal capital adequacy but without the adjustment for prudential valuation.

Siemens Bank uses the standardized credit risk approach for the purposes of measuring and covering the regulatory capital requirements with respect to default risk. It uses the standardized approach for measuring market risk and the basic indicator approach for measuring operational risk.

(€ million)	2020	2019
1. Default risk		
Standardized credit risk approach		
Central governments	0.0	0.0
Institutions	0.2	0.8
Corporates	565.2	554.0
Retail business	0.0	0.0
Items with particularly high risk	12.3	0.0
Other	0.4	0.6
Overdues	1.4	0.5
Sum of default risk	**579.5**	**555.9**
2. Market risk		
Standardized approach	2.0	1.8
- of which: currency risks	2.0	1.8
Sum of market risk	**2.0**	**1.8**
3. Operational risk		
Basic indicator approach	24.3	24.3
Sum of operational risk	**24.3**	**24.3**
Total capital requirements	**605.8**	**582.1**

Figure 7: Regulatory capital requirements as of September 30, 2020 (previous year according to approved financial statements)

Siemens Bank must ensure a total capital ratio of 10.76 % according to CRR in conjunction with the relevant provisions of the KWG. The total capital ratio also includes the capital preservation buffer and the anti-cyclical buffer which must be furnished from common equity tier 1 capital. The total capital ratio is the ratio of the total amount from risk-weighted assets to Siemens Bank's regulatory capital. As of September 30, 2020, the total capital ratio (Pillar I) for Siemens Bank was 13.96 % according to the final financial statements (previous year: 14.52 % according to the approved financial statements). As Siemens Bank's equity comprises predominantly tier 1 capital components, the total capital ratio is only slightly higher than the tier 1 capital ratio (Pillar I) of 13.18 % according to the final financial statements (previous year: 13.71 % according to the approved financial statements). Both ratios are therefore markedly higher than the capital ratios specified by the regulatory requirements.

The difference between the required regulatory capital of €605.8 million (previous year: €582.1 million) and the required economic risk capital in the normal scenario of €538.9 million (previous year: €507.4 million) is the result of Siemens Bank using its own risk models in the calculation of the required economic capital.

2.3 Default risk

Siemens Bank understands default risk to mean possible loss of value resulting from partial or complete default or from a deterioration in the credit rating of customers of Siemens Bank. Within default risk overall, Siemens Bank makes a distinction between credit risk, counterparty risk and issuer risk.

The framework of rules and regulations for identifying, managing and monitoring default risk comprises the Credit Policy and its associated guidelines for default risk management. The Credit Policy is a comprehensive description of procedures, tools, roles and responsibilities for all persons involved in the process. The policy is reviewed at least once a year to ensure that it is up to date.

Credit risk

Credit risk refers to the risk that a borrower will fail to meet its obligations to Siemens Bank under a loan agreement, either partially or in full. Credit risk also includes transaction risk under loan agreements, the risk of default in connection with deposits made by Siemens Bank and country risk. Country risk is the risk of constraints on monetary transfers or currency conversions as a result of official decisions or political restrictions in a particular country. Country risk also includes sovereign risk, i.e. the credit risk in relation to governments or central banks. Credit risk is the principal form of default risk to which Siemens Bank is exposed.

Counterparty risk

Counterparty risk refers to the risk that a counterparty in a forward or derivative transaction will fail to meet its obligations to Siemens Bank, either partially or in full. In the last fiscal year, Siemens Bank was not exposed to any significant risk amounts in connection with counterparty risk because of the low number of derivative risk positions held by the Bank.

Issuer risk

Issuer risk is the risk of deterioration in the credit rating of an issuer or the risk that an issuer will default, either partially or in full. On September 30, 2020, Siemens Bank was only exposed to issuer risk positions through short-term bonds (treasury bills) with maturities of less than one year.

2.3.1 Risk classification

The classification of risk and the associated credit rating for Siemens Bank customers play a key role in the process for granting loans, assessing new business and determining the internal risk capital requirement. Siemens Bank has a number of rating procedures at its disposal for determining customer credit ratings. The rating procedures are based on the attributes of the different customer groups and on specific product features; for example, there are separate criteria for determining ratings in connection with project finance entities. Rating procedures are based on statistically validated models and are optimized on an ongoing basis. Regular backtesting forms the core of this optimization process in order to ensure that the Bank achieves the best possible level of forecast quality and discriminatory power within its rating procedures.

Siemens Bank has defined ten rating classes to enable it to achieve a meaningful differentiation between credit ratings. There are up to three further subclasses within each rating class (e.g., 3+, 3, 3-). This system therefore consists of a total of 19 different credit rating categories overall. The rating categories can be reconciled with external credit ratings using a conversion table. If credit ratings are available from an external provider in any particular instance, these external ratings can be used as an input for a credit rating procedure. All external credit ratings used by the Bank in its risk classification procedures are obtained exclusively from S&P, Fitch or Moody's. Even if an external credit rating is used, Siemens Bank still carries out a credit rating analysis using its own knowledge and information. Credit rating classes 1 to 7 are used for unproblematic customers.

If a borrower is classified with a credit rating of 8+ or worse, the borrower concerned is made subject to intensified obligor management. Intensified obligor management may also take place without a downgrade to a rating of 8+ or worse if other criteria for intensified obligor management are met – e.g., a request by the customer for loan restructuring or a high probability of imminent default. If a borrower is classified with a credit rating of 9 or worse, the borrower concerned is transferred to the problem obligor management unit. Rating category 9 covers all borrowers who are subject to loan restructuring; category 10 comprises all borrowers already in default and in the process of winding-up.

The risk classification process also always takes into account the country risk associated with a borrower. The credit rating for a borrower must always be considered in relation to the rating for the borrower's country and is generally subject to an upper limit based on the country risk.

A borrower's credit rating is reviewed at least once a year on the basis of the latest available information. Credit ratings are reviewed immediately if there are changes in specific borrower circumstances or significant changes in the economic environment.

2.3.2 Portfolio management and modeling

The lending portfolio is managed using an integrated approach comprising management of expected and unexpected losses, procedures for early detection of risk, stress-testing procedures and a comprehensive assessment approach of new business.

Expected loss

To determine the expected loss, the Bank forecasts the average loss it expects based on the current credit rating and the current expected recovery rate for each and every borrower. The expected loss is a key figure in portfolio analysis and a key input variable for pricing new business. When determining risk as part of the portfolio analysis, the expected loss is calculated for a period of one year; the maturity of the exposure is used for the purpose of pricing new business.

Unexpected loss

A credit-value-at-risk approach is used to analyze lending portfolio risk and to determine the economic capital requirement. The credit value at risk serves to quantify an unexpected loss and is a key risk variable in portfolio modeling. In this calculation, Siemens Bank uses a risk horizon of one year and a confidence level of 99.95%. The confidence level is derived from Siemens Bank's target rating of A/A-. Credit risk modeling at the portfolio level uses a simulation-based asset-value model. The asset-value model simulates the probability of default of the borrower using the borrower's return on company value. To determine the return on company value, Siemens Bank uses a multifactor model comprising both macroeconomic and borrower-specific factors. Customers with similar economic characteristics are aggregated into risk units in order to calculate the unexpected loss. The stronger the correlation between a risk unit and macroeconomic factors, the greater the fluctuation in this unit's probability of default in the event of changes in the macroeconomic factors. The fluctuation in the macroeconomic and the borrower-specific variables, and therefore the probability of default, is simulated using a Monte Carlo approach. A loss distribution for the lending portfolio is generated from the resulting changes in the probability of default. In addition to the correlations of the risk units, another key input variable for the Monte Carlo simulation is the probability of a credit rating migration. To obtain this data, the Bank draws up a table based on historical credit rating migrations. At each stage in the Monte Carlo simulation, the table provides the probability of migration to a better or worse rating category for each risk unit. The simulated loss distribution takes into account not only losses due to a migration to a default class, but also economic losses by a risk unit caused as a result of the deterioration in credit rating. The exposure for a risk unit comprises the loan amount paid out and any weighted amount related to open external credit lines. In addition to losses due to rating migration, the portfolio model also takes into consideration fluctuations of the recovery rate and asset recoveries. While negative recovery fluctuations lead to higher loss in the event of rating migration, asset recovery fluctuations lead to direct loss in market value. For customers with specific loan loss provisions, the exposure is reduced by the value of the specific loan loss provision. The credit value at risk and the risk contributions for the risk units are then derived from the loss distribution. In addition to the credit value at risk, the risk contributions from the largest portfolios and segments are also calculated in order to measure concentration risk.

Country risk

Country risk is measured by analyzing concentration risk for individual countries in terms of economic capital requirement and credit exposure. Country risk is limited both by preventive action in which exposure limits must be adhered to during the course of the credit process and by the ongoing analysis of concentration risk in individual countries.

Backtesting

Siemens Bank carries out monthly backtesting of the risk classification and probabilities of default as well as an analysis of rating migrations in order to ensure and refine the level of quality in its modeling of expected and unexpected loss (credit value at risk). In addition, other parameters used in determining risk are examined as part of an annual review of risk models and rating procedures. Backtesting of rating procedures in terms of discriminatory power and forecast quality takes place monthly. If there are any anomalies, the results are used as the basis for adjusting the structures and the methodology of the rating procedures.

Pricing

As part of the credit process, new business is assessed using measurement methods and pricing tools. These methods and tools factor in funding costs, expected losses and tax effects as well as administrative expenses and the costs in connection with economic risk capital. All the essential aspects of risk and return are therefore taken into account in the assessment of new business. The parameterization of the pricing tool is based on the parameterization defined within the portfolio management process and thereby ensures consistency with the Bank's integrated risk-return management. Key figures determined from the pricing process are the EVA and the RoE based on the RoRaC of such new business.

Early detection of risk

The credit rating process at Siemens Bank is based on established reporting and monitoring processes, ensuring that credit ratings are up to date. Qualitative and quantitative information is regularly monitored, classified and promptly included in any credit rating assessment.

Stress testing

Lending-portfolio modeling and management using credit value at risk is complemented by targeted sensitivity analyses and stress tests. The stress tests and sensitivity analyses for credit risk are carried out regularly for the overall risk reporting as well as ad hoc. The purpose of sensitivity analyses is to consider individual risk factors in isolation. Stress tests, on the other hand, provide a holistic view for the purposes of assessing credit risk. By integrating stress testing into the analysis of internal capital adequacy, the Bank is able to identify any areas in which action is required. Inverse stress tests also play a specific role. Although these inverse tests do not form part of the analysis of internal capital adequacy, they nevertheless constitute important indicators in the early detection of risk and in the identification of possible risks to internal capital adequacy.

The model scenarios used for the stress tests take into account both historical scenarios and the strategic direction currently being pursued by Siemens Bank. At the core of the scenarios is a macroeconomic approach that simulates the impact of a recession on the lending portfolio and the internal capital adequacy. Within the scenarios, Siemens Bank makes a distinction between a shallow, a moderate and a severe recession.

2.3.3 Risk mitigation techniques

The risk classification and the accompanying credit rating of the borrower form the basis for the credit decision and for the analysis of the expected and unexpected loss. The borrower's credit rating itself is determined independently of any individual transactions and, as a result, also independently of available collateral. However, collateral still represents an important component in assessing risk and calculating economic capital requirements in a lending transaction.

Types of collateral

In its management of credit risk, Siemens Bank makes a distinction between two fundamental categories of collateral:

- The first category comprises assets in the form of financial or other collateral that the Bank can realize in the event of a default, thereby allowing the Bank to limit the incurred loss. This category includes, in particular, physical assets in the case of capital investment loans or project finance as well as cash collateral.

- The second category comprises collateral in the form of guarantees furnished not by the borrower but by independent third parties, for example government export credit insurance.

Collateral management

Both categories of collateral form an integral part of credit risk management at Siemens Bank provided that such collateral meets internal requirements for collateral that can be accepted by the Bank. Specifically, collateral in the second category is only acceptable if the credit rating of the guarantor is better than the rating of the original borrower, the guarantee is directly legally enforceable, all documentary requirements are met and the guarantor is not an individual. In the case of syndicated loans, management of collateral may be transferred to another bank that is a member of the loan syndicate.

Collateral in the first category results in a reduction in the expected and in the unexpected loss because the recovery rate for the transaction has been increased or because an asset recovery has been claimed. Collateral in the second category also leads to a reduction in the expected and unexpected loss in that the credit rating of the guarantor is also factored into the calculation.

2.3.4 Risk allowances

Siemens Bank recognizes individual allowances for loans classified as subject to problem obligor management. These allowances are intended to cover the expected loss after taking into account any expected proceeds from the realized collateral. Siemens Bank also recognizes general loan loss provisions to cover the latent credit risk in the portfolio of loans and advances. In doing so, loan loss provision rates based on the rating, the expected term and the internal estimate of loss ratios in the event of loss are applied to the unsecured exposure. The rating also factors in an assessment of country risk, with the result that any general loan loss provision recognized by the Bank also covers the assumed latent country risk. The assumptions that underlie the valuations are continuously monitored and validated.

As of September 30, 2020, Siemens Bank had total recognized specific and general loan loss provisions of €61.7 million (previous year: €39.5 million). The increase before provisions for general banking risks is the result of both higher specific and general loan loss provisions. Specific loan loss provisions include transaction-specific assessments of future cash flows, probabilities of default and expected loss rates, taking into account collateral and, where applicable, restructuring effects. The increased provisions for latent credit risks are attributable to the riskier market environment and changes in the rating structure of the portfolio.

2.3.5 Analysis of the lending portfolio as of September 30, 2020

The required economic capital for default risk as of September 30, 2020, was €484.0 million. This capital requirement was contrasted by an allocated risk-taking potential of €700.0 million. The amount of capital required is largely determined by the lending portfolio volume, borrower credit ratings, collateralization and borrower industrial sectors and countries. The year-on-year increase in required risk capital is partly due to increased credit exposure and partly to the impact of the COVID-19 crisis. Furthermore, individual transactions also migrated to the category “high likelihood of default”.

The lending portfolio focuses on project financing and corporate loans and is in line with Siemens Bank’s business strategy.

As of September 30, 2020, the lending portfolio from lending business and the Treasury's investments as part of liquidity risk management and asset liability management (excluding short-term money market investments and treasury bills) had a nominal value of €7,257.0 million (previous year: €7,298.5 million), of which €6,675.8 million (previous year: €6,747.4 million) was attributable to project financing and corporate and €581.2 million (previous year: €551.1 million) to public-sector borrowers. The effects of COVID-19 have a stronger impact on corporate financing than on project financing or public-sector borrowers.

The main emphasis is on the energy, manufacturing and healthcare sectors. However, the effects of the COVID-19 pandemic are limited to a few industry segments, such as transportation, automotive or individual service activities. Project financing in the infrastructure sector, where the Bank is heavily involved, has so far proved to be largely resilient.

A breakdown of the Siemens Bank lending portfolio by credit rating as of September 30, 2020, is shown in the following table:

(€ million)	**2020**	**2019**
Rating category	**Outstanding**	**Outstanding**
Investment grade	2,589.5	2,726.2
Non-investment grade	4,667.5	4,572.3
of which exposures with high likelihood of default	122.4	13.6
of which defaulted exposures	23.8	17.5
Total	**7,257.0**	**7,298.5**

Figure 8: Lending portfolio by rating category

As of September 30, 2020, the investment-grade exposure (rating 1 through rating 5+) totaled €2,589.5 million (previous year: €2,726.2 million) and the non-investment-grade exposure (rating 5- through rating 10) totaled €4,667.5 million (previous year: €4,572.3 million). There was a total of €122.4 million of credit exposure with a high likelihood of default (rating 9) as of September 30, 2020 (previous year: €13.6 million). Exposure to default in the lending portfolio (rating 10) was €23.8 million (previous year: €17.5 million). Non-collateralized loans are in general only granted to customers with an investment-grade rating. The increase in credit exposure with a high likelihood of default is partly due to the COVID-19 pandemic.

The breakdown of the lending portfolio by geographical area (based on the country of risk) as of September 30, 2020 highlights the Bank's business strategy of focusing on customers in Europe, Asia and Australia.

(€ million)	**2020**	**2019**
	Outstanding	**Outstanding**
EU excluding the eurozone	1,848.8	1,801.0
Eurozone excluding Germany	1,367.8	1,298.4
Asia	1,303.9	1,219.8
Germany	1,125.0	1,197.4
Australia/Oceania	679.9	750.5
Europe excluding the EU	628.5	732.3
America	225.1	211.5
Africa	77.9	87.5
Total	**7,257.0**	**7,298.5**

Figure 9: Breakdown of lending portfolio by geographical area

Country group "EU without eurozone" is mainly attributable to the United Kingdom.

2.4 Liquidity risk

Siemens Bank only takes on liquidity risk to the extent that this is necessary to implement its business strategy. The Bank is only permitted to take on funding risk within tightly defined limits.

The framework of rules and regulations for identifying, managing and monitoring liquidity and market risk comprises the Asset Liability Management Policy (ALM Policy) and its associated guidelines. The ALM Policy is a comprehensive description of procedures, tools, roles and responsibilities for all persons involved in the process. The policy is reviewed at least once a year to ensure that it is up to date.

2.4.1 Risk management

Liquidity risk (in the sense of risk of insolvency)

Liquidity risk (in the sense of risk of insolvency) is the risk that Siemens Bank will not be able to meet its payment obligations (in euros or in a foreign currency) on time or in full. Siemens Bank uses a detailed, multicurrency liquidity gap profile to manage liquidity risk. In this profile, the balances of all deterministic, optional and modeled cash flows are reported on a daily basis. A subsequent gap analysis for the individual time brackets then ensures that any emerging liquidity shortfall is detected at an early stage and that Siemens Bank can meet its payment obligations at all times. In a procedure similar to that used for the multicurrency liquidity gap profile in euros, individual liquidity gap profiles are generated and analyzed daily for each key currency.

In order to ensure that liquidity is maintained during the course of the day, the latest account balances are continuously monitored.

If a liquidity shortfall arises nevertheless, Siemens Bank has a liquidity contingency plan that defines communication channels and a comprehensive range of contingency measures.

Monitoring and measurement of the liquidity coverage ratio and the minimum liquid assets (for the Singapore Branch) is integrated into daily liquidity management.

Funding risk

Funding risk is the risk that Siemens Bank will only be able to close gaps in its liquidity gap profile by obtaining funds at increased market interest rates. The maximum present value loss arising from changes in funding terms and conditions is calculated daily in the form of liquidity value at risk (LVaR) based on the net cash flows determined in a spread-sensitive liquidity gap profile.

Prepayment risk

Prepayment risk is the risk that, as a result of a premature repayment of a variable interest loan by the borrower, Siemens Bank must then pay prepayment compensation on the corresponding funding when it is terminated early. Because the loans are variable interest loans, only the changes in the funding spreads are relevant for the prepayment compensation calculation. For loans with fixed interest rates, market value compensation clauses are agreed upon. Prepayment risk arises therefore due to overestimation of the expected maturity of the credit business.

Limit structure

Siemens Bank defines its liquidity risk tolerance over a period of twelve months and thereby limits the gaps determined in the liquidity gap profile. Liquidity risk controlling continuously monitors compliance with these limits. For the time period of up to one month, the limit is represented by a minimum liquidity buffer, which is always determined as a result of the stress tests for the liquidity risk and adjusted on a monthly basis. Limits in place for other time periods of up to one year are adjusted yearly and are based on the total asset volume. If a limit is exceeded, the ALM Committee has to be informed without delay and action has to be initiated to restore compliance with the limit.

Funding risk is managed through operational value-at-risk limits at a bank-wide level. Liquidity risk controlling continuously monitors compliance with these limits. If a limit is exceeded, the ALM Committee has to be informed without delay and action has to be initiated to restore compliance with the limit. The operational management is the responsibility of the Treasury department of Siemens Bank. Siemens Bank takes on funding positions that result in liquidity risk only within the framework of its asset-liability management. Derivatives are currently only allowed in order to reduce risk and not as a means of creating new funding risk positions.

Operationally meaningful management of prepayment risk is not possible through a limit structure because this would create incentives to increase the risk from maturity transformation. Therefore, prepayment risks are preemptively minimized as far as possible through the management of the expected maturity of the underlying transactions.

2.4.2 Modeling

Modeling

In order to ensure the liquidity gap profile is a full and complete presentation of the current liquidity position, Siemens Bank includes optional and modeled cash flows as well as deterministic cash flows in the profile. These optional and modeled cash flows include, for example, outstanding project finance drawings, committed but undrawn lines of credit, the notified lending and deposit business, possible drawings from the guarantee exposure as well as possible and imminent losses in the lending portfolio. The assumptions made allow Siemens Bank to draw up a complete, risk-adjusted and comprehensive presentation of its liquidity position.

Siemens Bank uses an internal liquidity-value-at-risk model (LVaR) to measure funding risk. Economic capital is determined by calculating the value at risk with a confidence level of 99.95% and a risk horizon of one year. Operational value-at-risk limits are then derived from this calculation. If the operational value-at-risk limits are determined and monitored using a different confidence level or risk horizon, the Bank ensures that there is always reconciliation to internal capital adequacy.

Prepayment risk is modeled through a stress case and calculated monthly. The stress case assumes that all transactions from the lending business are prepaid on the reporting date, and the resulting costs are included in the internal capital adequacy assessment.

Liquidity buffer

For unexpected liquidity shortfalls, Siemens Bank holds a buffer consisting of high-quality, liquid assets eligible for use as central bank collateral as well as cash. A core component of this strategy is Siemens Bank's participation in Deutsche Bundesbank's loan submission program KEV (Krediteinreichungsverfahren). The minimum reserve at Deutsche Bundesbank is not included in the buffer. To ensure compliance with the liquidity coverage ratio and with the minimum liquid assets (for the Singapore Branch), Siemens Bank has a portfolio of highly liquid assets.

Stress testing

Siemens Bank has defined hypothetical stress test scenarios for liquidity risk. These scenarios include both market and institution-specific liquidity risks. In addition, the Bank also regularly analyzes a combined scenario. The results of the stress test scenarios always determine the minimum level of the required liquidity buffer. The results of the stress tests are reported in the overall risk report and to the ALM Committee in the monthly market and liquidity risk report.

The funding risk stress case is calculated with the assumption of increasing volatilities of the funding spreads as well as through a simulated reduction in available liquidity.

Backtesting

The modeling assumptions regarding future cash flows included in the liquidity gap profile and the assumptions used in the calculation of the LVaR are regularly validated by risk controlling.

Risk controlling also reviews the defined stress test scenarios.

The early warning indicators defined to highlight a liquidity shortfall are validated on a regular basis – but, in any case, at least once a year – to ensure that they are up to date and complete. On a similar cycle, liquidity risk controlling reviews the action specified in the event of a liquidity shortfall to assess whether this action is effective and can be implemented within the required period of time.

2.4.3 Liquidity analysis as of September 30, 2020

The liquidity gap profile comprising deterministic, optional and modeled cash flows shows negative cumulative cash flows in 1.25-year to 5-year time brackets as of September 30, 2020. All cumulative cash flows up to 12 months are positive. All operative liquidity limits, including funding limits, were being complied with at all times. In order to monitor the limits, optional and modeled cash flows are included in these figures and are already adjusted for risk. Siemens Bank maintains a liquidity buffer of assets eligible as collateral with central banks and deposits with central banks. As of September 30, 2020, this buffer amounted to €961.2 million (previous year: €912.0 million). There were no effects of the COVID-19 pandemic on liquidity risk in the sense of a risk of insolvency in the past fiscal year.

Within strict limits, deposits are also used for funding the lending business. Given the largely maturity-matched funding of the lending business, Siemens Bank had, as of September 30, 2020, a liquidity value at risk of €29.3 million (previous year: €21.5 million) with a confidence level of 99.95 % and a risk horizon of one year because of the negative cumulative cash flows in the medium to long-term liquidity structure. This capital requirement was contrasted by an allocated risk-taking potential of €60.0 million. With regard to funding risk, the second half of the past fiscal year saw increased utilization of the allocated risk-taking potential as a result of short-term increases in funding costs. This is mainly due to market fluctuations resulting from the COVID-19 pandemic. The allocated risk-taking potential was therefore increased from €30.0 million to €60.0 million in the course of the fiscal year. However, both funding costs and risk returned to normal at the end of the fiscal year, and the utilization of risk-taking potential is only slightly higher than at the end of the previous fiscal year.

There were no accounting losses during the fiscal year arising from prepayment risks.

2.5 Market risk

Siemens Bank understands market risk as possible loss of value resulting from fluctuations in market prices and from volatility in financial instruments.

Siemens Bank does not have a trading book. Currently, the Bank's business and risk strategy only allows it to enter into trading deals for the purpose of mitigating risk. To the greatest possible extent, Siemens Bank therefore avoids market risk positions and only enters into such transactions within tightly specified limits. Currently, market risk at Siemens Bank comprises interest-rate risk and currency risk.

Market liquidity risk is managed in an integrated approach in conjunction with the management of market risk because Siemens Bank is only exposed to market liquidity risk as a result of ordinary interest-rate and currency derivatives that it enters into to reduce the risk arising from open risk positions.

2.5.1 Risk management

The Asset Liability Management Committee (ALM Committee) at Siemens Bank is responsible for asset-liability management and therefore also for the management of market risk. In particular, the ALM Committee specifies the operational limits for the management of market risk based on the risk-taking potential allocated in the internal capital adequacy concept.

Responsibility for operational management within the system of limits specified by the ALM Committee lies with the Siemens Bank Treasury function. Siemens Bank takes on market risk positions solely in the context of its asset-liability management. Currently, the Bank may only enter into derivatives in order to reduce risk and not to take on new market risk positions.

Risk positions are monitored daily by market risk controlling. These activities include both the monitoring of compliance with operational limits and an analysis of the financial profit-and-loss account on a daily basis. If a limit is exceeded, the ALM Committee has to be informed without delay and action has to be initiated to restore compliance with the limit.

2.5.2 Modeling

Risk model

Siemens Bank uses a value-at-risk model, based on a variance/covariance method, to measure market risk. Economic capital is determined by calculating the value at risk with a confidence level of 99.95 % and a risk horizon of one year. Operational value-at-risk limits are then derived from this calculation. If the operational value-at-risk limits are determined and monitored using a different confidence level or risk horizon, the Bank ensures that there is always reconciliation to internal capital adequacy.

In addition to measuring present value market risk, Siemens Bank also calculates a monthly value-at-risk to measure net interest income (NII) in accordance with the European Banking Authority (EBA) guidelines for managing interest rate risk in the banking book (IRRBB). This NII value-at-risk is integrated into Siemens Bank's quarterly internal capital adequacy assessment.

Backtesting

The one-day value at risk is backtested in order to ensure the quality of the forecast produced by the value-at-risk model. The change in value in the underlying positions (hypothetical income statement) is compared with the calculated value at risk. If the hypothetical income statement exceeds the calculated value at risk more than seven times within a year, Siemens Bank makes adjustments to the modeling. This may involve either a general modification of the model or the introduction of a penalty factor.

Stress testing

The measurement of market risk using value at risk is complemented by targeted sensitivity analyses and stress tests. These analyses and stress tests simulate extreme fluctuations in individual risk factors or particular crisis situations that are not possible to encompass in the value-at-risk measurement approach. The scenarios used in these analyses and tests are based on both hypothetical portfolio-specific scenarios and historical data relating to actual extreme fluctuations in risk factors. The integrated stress tests in the economic risk adequacy assessment use, in particular, light, moderate and severe recessions as the basis for the tests.

2.5.3 Market risk analysis as of September 30, 2020

As of September 30, 2020, the required economic capital for market risk was €5.3 million (previous year: €13.3 million). The decline in risk capital requirements compared with the previous year was caused mainly by more active ALM management. This capital requirement was contrasted by an allocated risk-taking potential of €40.0 million. In particular due to the COVID-19 pandemic, market volatility in interest rates and currencies increased temporarily. However, this did not result in any significant P&L effects or limit overruns, but the allocated risk-taking potential was increased from €20 million to €40 million in the course of the fiscal year. Market conditions largely returned to normal at the end of the year, and economic capital requirement at the end of the fiscal year was even significantly lower than the comparable figure for the previous year.

2.6 Operational risk

Operational risk (OpRisk) is defined as the risk of losses resulting from inappropriate or failed processes or technical systems or inappropriate behavior or failures on the part of individuals or resulting from external events. This definition includes legal and reputational risk.

The framework of rules and regulations for identifying, managing and monitoring operational risk is provided by the OpRisk Policy. This policy is a comprehensive description of procedures, tools, roles and responsibilities for all persons involved in the process. The policy is reviewed at least once a year to ensure that it is up to date.

The organizational structure of OpRisk management comprises both central and decentral components. Basic responsibility for the management of operational risk lies at the decentral level with the relevant Siemens Bank departments and units. This management is coordinated by an OpRisk manager appointed by the Management Board. The OpRisk manager acts as a central point of contact for all matters concerning OpRisk management.

2.6.1 Risk classification and management

Siemens Bank conducts an annual self-assessment in which it systematically collects and analyzes data on operational risk. The various risks are then prioritized based on the risk potential determined in the analysis. Thereafter, the Bank initiates appropriate measures that are subject to continuous monitoring in order to mitigate any critical risks that have been identified.

Any losses actually incurred above a defined threshold value are recorded without delay in the Bank's own database of losses and analyzed to establish the cause of the losses. The Risk Committee decides on any action that needs to be initiated, and the OpRisk manager monitors the implementation of such action.

Siemens Bank also has a comprehensive contingency plan to ensure that the business can continue to operate in the event of process or system failures. This plan is regularly reviewed to verify that it is fit for this purpose.

An early warning system has been implemented on the basis of key risk indicators. These indicators are monitored monthly and are regularly screened by the Risk Committee.

Siemens Bank uses the basic indicator approach (BIA) as specified in CRR in order to measure and cover the regulatory capital requirement for operational risk.

To measure the required economic capital, Siemens Bank reduces the available risk-taking potential by the amount determined for regulatory purposes under the BIA. The Bank also conducts regular stress tests on its economic capital adequacy requirements as part of the internal capital adequacy assessment in order to minimize the risk in this static approach caused by possible fluctuations in the results of operations.

2.6.2 Risk reporting

Operational risk forms an integral part of the overall risk report and is subject to regular quarterly and annual risk reporting. The key risk indicators (KRIs) are monitored and reported monthly.

Ad hoc reports are also used to report any material losses to the Management Board without delay. These reports include any reputational damage or losses due to fraud.

2.6.3 Operational risk analysis as of September 30, 2020

The total value of operational losses in the past fiscal year was below €0.1 million.

The required economic capital for operational risks as of September 30, 2020 was €24.3 million (previous year: €21.8 million). The required capital is based on the regulatory calculation specified in the CRR and is adjusted yearly by the Management Board based on the final financial statements. As last year, this capital requirement was contrasted by an allocated risk-taking potential of €25.0 million.

Despite a very rapid and extensive switch at the beginning of the COVID-19 pandemic to staff at all Siemens Bank locations working remotely from home, there were no significant restrictions on business operations – also due to the Bank's business model. Furthermore, there was no substantial absence of personnel, and no substantial failure of infrastructure or IT systems that would have significantly affected business operations.

2.7 Business and strategic risk

Business and strategic risk is managed by the Management Board of Siemens Bank at an overarching level for the entire Bank rather than as part of the day-to-day business of individual departments or segments.

Business and strategic risk is assessed during the course of the process for determining the Bank's business and risk strategies. Business risk is managed by identifying potential business and specifying target markets as part of business-strategy planning and by subsequently deriving business-strategy targets and action plans. Using the business strategy as a basis, a risk inventory is performed for business and strategic risks. The risk inventory includes an inventory of the methods used for the risk quantification and risk management as well as an analysis of the relevant risk factors and a forecast of the required capital for Siemens Bank. After the completion of the risk inventory, targets and measures for the individual risks are defined. The targets and measures are continually monitored by the back-office functions.

Business risk in the sense of a net present value margin risk represents the quantifiable portion of the business risk. This is taken into account separately in the internal capital adequacy assessment and is related to the amount of the additional risk-taking potential.

Siemens Bank uses a value-at-risk model, based on a variance/covariance method, to measure business risk. Economic capital is determined by calculating the value at risk with a confidence level of 99.95% and a risk horizon of one year. Operationally meaningful management of business risk in terms of net present value margin risk is not possible through a limit structure; therefore, the Management Board manages this risk on a bank-wide level. In the past fiscal year, capital requirements for this risk fell from €121.7 million to €101.7 million. The change was mainly due to lower interest rate and FX volatilities, in particular for the USD and GBP yield curves and the EUR/GBP exchange rate.

Changes in the overall risk situation, and therefore also in strategic risk, are analyzed quarterly by the Risk Committee. Particular emphasis is given to analysis of the lending portfolio in terms of strategic alignment and trends.

3 Further information

Siemens Bank maintains branches abroad in London, United Kingdom, and in Singapore. These branches operate in the lending business and, to a limited extent, also in the fee business. In addition to the headquarters in Munich, the office at the London banking center was established as a second essential pillar for the acquisition of new business in Europe and the Middle East, while the Singapore Branch serves to generate new business in Asia and Australia and to establish local lending risk management. There are no other branches abroad.

As in the previous year, Siemens Bank was involved in a large number of Group-wide programs and initiatives in 2020 under the auspices of Siemens AG, such as

- compliance programs to ensure compliance with legal requirements as an indispensable basis for demonstrating the integrity of the Group's business activities so that Siemens is perceived by stakeholders as a trustworthy partner;

- sustainability management to promote responsible, sustainable conduct at economic, environmental and social levels for the benefit of future generations; In accordance with the principles of the Agenda 2030 of the 193 UN member states and their sustainability objectives, the Bank has established an ESG ("Environmental," "Social," "Governance") framework for making lending decisions in accordance with sustainability principles. The goal is profitable, long-term growth, taking into account sustainable criteria;

- diversity management to support gender diversity and to support employees in various private and professional situations and help them meet the challenges in both their working and private lives; and

- initiatives to support a work-life balance, for example tax-free childcare subsidies and childcare places linked to employment contracts.

As in the previous year, no nonfinancial performance indicators were used during the 2020 fiscal year to manage the business.

An extremely important factor in Siemens Bank's business performance was the reconfirmation of its credit rating by Moody's credit rating agency in September 2020. In its credit opinion, Moody's affirmed an unchanged long-term rating for Siemens Bank of A1 and an unchanged short-term rating of P-1.

4 Outlook

Trends in the economic environment

In its autumn 2020 economic forecast, the Joint Economic Forecast Project Group of the Federal Ministry of Economics and Energy assumes that economic recovery after the massive slump in economic output in March and April will lose momentum. The Joint Economic Forecast assumes a decline in gross domestic product of 5.4 % in the 2020 calendar year and growth of 4.7 % in the 2021 calendar year. In its September 2020 economic survey, the Association of German Banks expects that the COVID-19 pandemic will also characterize the 2021 calendar year. Many delayed pandemic effects, such as unemployment or debt, will not be observed until 2021. The survey conducted by the Association of German Banks predicts that the global economy will shrink by 4 % in calendar year 2020 and grow by 5 % in the following year (following a growth assumption of 3.1 % for the 2020 calendar year in previous year's forecast). The Association of German Banks is already observing a significant economic recovery in the current calendar year, although recovery will already be slowing down again in the fourth calendar quarter after strong "rebound effects" in the third calendar quarter. From Siemens Bank's point of view, the extent to which the recent restrictions and partial lockdown measures in countries such as Germany, France and the UK call this forecast into question requires further investigation.

The forecasts unanimously show that developments will continue to be heterogeneous in Siemens Bank's key core markets. For example, growth in the eurozone will rise again by 6 % in calendar year 2021 after the economy shrank by 8 % in 2020. In this respect, the Association of German Banks is relying in particular on the effects of the Recovery Plan for Europe. This also applies to the United Kingdom which is expected to definitively leave the European Union in 2020 as part of Brexit. The OECD expects similar developments for key Asian countries – a significant slump in gross domestic product in calendar year 2020 is to be followed by a significant economic recovery, although growth rates will not reach the level of the past. All in all, no forecast assumes that economic development in calendar year 2021 will return to pre-crisis levels.

All forecasts stress a multitude of uncertainty factors and risks for the further economic development: In particular, the further course of the COVID-19 pandemic cannot be predicted. Moreover, according to the Association of German Banks, the pandemic merely covers up "old" challenges such as trade conflicts between the U.S. and China or the European Union, geopolitical conflicts in the Middle East, digitalization and the associated restructuring of entire branches of industry, and the challenges of global climate change. In the opinion of Siemens Bank, these uncertainties particularly affect developed and export-oriented economies and have a negative impact on the market for equipment investments. The lack of political agreement for a regulated withdrawal of the United Kingdom from the European Union represents major political and economic risks for Europe in particular. Siemens Bank also observes that regulatory requirements are developing differently for banks within and outside the European Union.

According to Siemens Bank's assessment, current growth forecasts tend to be lower than those of the previous year and reflect a more skeptical mood than a year ago, despite the predicted economic recovery.

Opportunities and risks in the 2021 fiscal year

Siemens Bank shares the expectation that economic development in fiscal 2021 will continue to be strongly influenced by the COVID-19 pandemic. On the basis of the forecasts quoted, Siemens Bank expects a scenario in which the global economy will recover steadily but slowly in the coming fiscal year, with industry-specific differences and, possibly, repeated setbacks, tightened restrictions and even lockdowns in individual countries.

In principle, Siemens Bank expects that, based on its portfolio structure with a high proportion of project financing business and a broadly diversified corporate lending business, it will continue to perform well even in this difficult environment. Siemens Bank believes that the demand for project finance and investment loans, in particular in Asia, will remain on a level that is similar to that of the previous years, as the planning cycles for infrastructure projects and project financing are usually longer. This also applies to the Middle East if political risks are strictly managed. With the increased presence in Asia and Australia through the Singapore Branch, the Bank sees development and growth opportunities in the further expansion of its business activities in this region. Siemens Bank continues to build on the consistent continuation of the focus of its lending business on attractive risk-return profiles and on the income from its lending portfolio, which has so far proven to be resilient. Siemens Bank expects positive development impulses from the strategic realignment of the Siemens Group and the associated development of new products and markets. New products and markets also offer Siemens Bank the opportunity to open up new sales markets through new products and financing solutions. Here, as in the past, the Bank intends to avoid exposure to excessive credit risk through a diversification with regard to regions and industries, and through consistent risk management. Very intensive monitoring and review activities of the lending portfolio – as practiced since the beginning of the pandemic in fiscal 2020 – will naturally also characterize the 2021 fiscal year.

Nevertheless, a series of elements of uncertainty and risk remain that Siemens Bank believes may lead to significant negative deviations from the current forecasts. In particular, a delay of a COVID-19 vaccine, further outbreaks of the pandemic or comprehensive lockdown measures may severely affect the global economy and cause a deeper and longer-lasting economic downturn with a slower economic recovery in small steps. Such a scenario would have significant impact on the growth and profitability of companies and would lead to credit defaults in the overall market, from which Siemens Bank would not be able to disengage itself.

In summary, with reference to COVID-19, it can be said that the pandemic represents a challenge in many areas and thus also a risk for Siemens Bank. COVID-19-induced economic problems among borrowers may have negative impact on allowances for losses on loans and advances and may lead to defaults in the lending portfolio. In addition, the pandemic may have negative impact on processes and controls if employees fall ill to a significant extent or if processes in a mobile working environment or at remote workstations do not function smoothly. Further risks may arise from liquidity bottlenecks on relevant credit and refinancing markets. Siemens Bank has therefore set up a close monitoring system that monitors both the risk situation of the lending portfolio and the operating processes at Siemens Bank at close intervals and escalates adverse developments directly to the Management Board and the Supervisory Board.

In addition to the special risks of the COVID-19 pandemic, which will dominate the coming fiscal year, Siemens Bank is monitoring a number of other risks that may have adverse effects on the Bank's future development.

A further escalation of the trade conflicts between the U.S. and China or the European Union represents a major economic risk both for export-oriented economies in Europe and for Asian economies.

In Europe, a contractually unregulated withdrawal of the United Kingdom from the EU ("hard Brexit") has become almost inevitable. In order to analyze and manage the impact of Brexit, Siemens Bank initiated a separate project at an early stage and has initiated important measures. Risks may arise primarily from EU regulations governing the operation of EU business from the United Kingdom. Brexit may indirectly lead to increased credit risks if Siemens Bank customers are adversely affected by Brexit. In addition, rising volatility in the British pound may have a negative impact on interest margins. However, due to the business model of the London Branch which is limited to the lending business, the Bank's regional diversification and the broad operational base in both London and Germany, Siemens Bank does not expect Brexit to have material impact on the Bank's business model and profitability.

Political and economic development in Turkey and the Middle East may have adverse impact on the debt servicing capacity of debtors. While Siemens Bank limits political risks primarily through credit insurance, potential economic risks are managed through strict credit risk management. In addition to these risks, populism, protectionism and trade conflicts as well as terrorism as factors of uncertainty may have a negative impact on future economic development. Siemens Bank believes that another risk factor lies in the persistently intensive competition in many regional markets for project and investment financing that is due to the historically low interest level and associated high liquidity. High demand for ESG financing may also lead to further pressure on margins. This environment makes it increasingly difficult to generate attractive risk-return profiles.

However, due to its broadly diversified positioning by sectors and regions and its consistent and comprehensive risk management system, Siemens Bank believes that it is well prepared for the ongoing challenges of the difficult market environment and, in particular, the COVID-19 pandemic. Siemens Bank intends to at least partially compensate for declining or negative effects and uncertainties in selected markets by positive effects in other markets.

Business performance of Siemens Bank in 2021

After a successful fiscal 2020 despite the COVID-19 pandemic, Siemens Bank expects its lending portfolio to grow slightly in fiscal 2021, with profitability under strong continuing pressure from the COVID-19 pandemic.

For the coming 2021 fiscal year, Siemens Bank expects the liquidity investments included in the loans and advances to banks, customers and central banks, and, associated with this, the short-term deposits of Siemens AG and its subsidiaries to remain on a comparable level, or to decrease once more to the level of the 2019 fiscal year. However, Siemens Bank believes that the development in loans and advances to customers in the lending business will have stronger impact on business volume and net interest income; here, Siemens Bank expects only slight growth in the 2021 fiscal year. Due to the expected largely unchanged lending portfolio, there is a lack of growth impulses on net interest income. The Bank plans to compensate for expiring business, which in part still offered higher margins, by consistently focusing on attractive risk-return profiles, active portfolio management and the targeted exploitation of opportunities in the crisis environment, thus countering the pressure on margins observed in the market. Siemens Bank expects that its funding in the 2021 fiscal year will continue to be provided largely by Siemens AG and its subsidiaries. Overall, Siemens Bank expects net interest income to remain stable in fiscal 2021.

Siemens Bank is not planning any material changes to the risk management services for Siemens AG and its subsidiaries in the 2021 fiscal year. Therefore, the Bank expects the business pillar fee business, and thus net fee and commission income, to grow only slightly and remain at a comparable level to the previous year. However, the earnings contribution will continue to be of secondary importance for the earnings position of Siemens Bank.

Administrative expenses relate firstly to the core lending business and the deposit and treasury business and thus to banking business in the narrower sense of the term. On the other hand, general administrative expenses relate to the rendering of services, in particular for Siemens AG and its subsidiaries. For the banking business in the narrower sense, Siemens Bank intends to again limit the increase in general administrative expenses for the 2021 fiscal year through strict cost discipline. This part of general administrative expenses is expected to only grow as a result of general price developments and investments in new products. Siemens Bank does not expect any significant changes in the fee business. Siemens Bank therefore expects general administrative expenses to increase moderately, in line with the development in previous years.

Even though Siemens Bank will continue to only selectively enter into credit risk and does not intend to compensate for the current margin pressure on the credit markets by assuming excessive risks, the Bank believes that the continuing high level of uncertainty in key markets will result in a higher absolute level of allowances for losses on loans and advances compared with the 2020 fiscal year. This development will be affected both by the impact of the COVID-19 pandemic and by the risk structure of the portfolio. Siemens Bank anticipates that many of the effects of the pandemic will only become apparent in the coming fiscal year. In order to take account of developments not yet visible at present, the Bank assumes in its planning that allocations to allowances for losses on loans and advances will once more increase compared with the 2020 fiscal year, but will be less dynamic than in the second half of the 2020 fiscal year.

Overall, Siemens Bank expects a very challenging fiscal 2021 during which the increase in general administrative expenses and higher allocations to allowances for losses on loans and advances will not be able to be offset by business growth and higher net interest income. Siemens Bank therefore expects a moderate decline in net operating income before tax. Against this background, and as in fiscal 2020, it will be very challenging to achieve the target range of 15-20 % for the return on risk-adjusted capital. However, as in previous years, the major uncertainty with regard to both performance indicators – also due to the Siemens Bank business model – is the development in provisions for loans and advances and, in the upcoming fiscal year, in particular the further developments of the COVID-19 pandemic.

Income statement

of Siemens Bank GmbH, Munich,
for the fiscal year from October 1, 2019 to September 30, 2020 (€'000)

	Notes to the financial statements		2020	2019
1 Interest income from	1			
a) Lending and money market business		229,109		278,570
of which: negative interest income €1,258 thousand (previous year: €920 thousand)				
b) Fixed-income securities and registered debt		837		1,295
			229,946	**279,865**
2 Interest expense	1		**-68,123**	**-125,963**
of which: positive interest expenses €4,297 thousand (previous year: €4,325 thousand)				
3 Fee and commission income	1, 2		**31,768**	**29,462**
4 Fee and commission expense			**-191**	**-192**
5 Other operating income	1, 3		**5**	**1,143**
6 General administration expenses				
a) Personnel expenses				
aa) Wages and salaries		-31,890		-32,081
ab) Social security and expenses for pension and support obligations		-4,670		-4,176
of which: in respect of pensions €(2,481) thousand (previous year: €(2,345) thousand)			-36,560	-36,257
b) other administrative expenses			-35,138	-31,510
			-71,698	**-67,767**
7 Depreciation and write-downs on intangible assets and property and equipment			**-212**	**-201**
8 Other operating expenses	3		**-2,562**	**-2,598**
9 Write-downs of receivables and certain securities and additions to provisions in the lending business			**-20,215**	**-21,774**
10 Expenses from additions to the fund for general banking risks			**-25,000**	**0**
11 Income from ordinary operations			**73,718**	**91,975**
12 Taxes on income	4		**-12,301**	**-10,538**
of which: deferred taxes €40 thousand (previous year: €40 thousand)				
13 Other taxes, if not included under item 8			**-155**	**-16**
14 Profit transferred under a profit-and-loss transfer agreement	5		**-61,262**	**-81,421**
15 Annual net profit			**0**	**0**
16 Distributable profit			**0**	**0**

Balance sheet

of Siemens Bank GmbH, Munich, as of September 30, 2020 (€'000)

Assets	Notes to the financial statements		2020	2019
1 Cash				
Credit balance with central banks		172,882		30,579
of which with Deutsche Bundesbank €172,571 thousand (previous year: €29,916 thousand)				
			172,882	**30,579**
2 Debt instruments of public institutions and bills of exchange that are eligible as collateral with central banks	6			
Treasury bills and non-interest-bearing treasury bonds as well as similar debt instruments of public institutions		72,097		76,375
of which refinanceable at Deutsche Bundesbank €0 thousand (previous year: *€0 thousand)*				
			72,097	**76,375**
3 Loans and advances to banks	7			
a) Sight deposits		15,067		43,954
b) Other receivables		321,996		53,999
			337,063	**97,953**
4 Loans and advances to customers	8		**7,142,338**	**7,203,525**
including secured by liens €0 thousand (previous year: €0 thousand)				
including municipal loans €581,154 thousand (previous year: €534,763 thousand)				
5 Bonds and other fixed-income securities	9			
Commercial paper and bonds from other issuers		34,375		36,971
of which eligible as collateral with Deutsche Bundesbank €0 thousand (previous year: €0 thousand)				
			34,375	**36,971**
6 Trust assets	10		**397,490**	**275,387**
of which trust loans €397,490 thousand (previous year: €275,387 thousand)				
7 Intangible assets	11		**1,515**	**1,627**
Goodwill				
7 Property and equipment	12		**90**	**127**
8 Other assets	13		**2,865**	**6,109**
9 Prepaid expenses and deferred income	14		**3,095**	**3,490**
Total assets	21		**8,163,810**	**7,732,143**

Liabilities	Notes to the financial statements		2020		2019
1 Amounts due to banks	15				
a) Sight deposits		6,474		5	
b) With agreed maturities or notice period		8,493		8,750	
			14,967		**8,755**
2 Amounts due to customers	16				
Other amounts due					
a) Sight deposits		7,274		1,354	
b) With agreed maturities or notice period		6,576,960		6,275,063	
			6,584,234		**6,276,417**
3 Trust liabilities	10		**397,490**		**275,387**
of which trust liabilities €397,490 thousand (previous year: €275,387 thousand)					
4 Other liabilities	17		**70,260**		**95,481**
5 Prepaid expenses and deferred income	14		**42,845**		**42,880**
6 Deferred tax liabilities			**0**		**40**
7 Provisions	18. 19				
a) Provisions for pensions and similar obligations		13,937		12,712	
b) Provisions for taxes		3,702		6,022	
c) Other provisions		11,375		14,449	
			29,014		**33,183**
8 Fund for general banking risks			**25,000**		**0**
9 Equity	20				
a) Subscribed capital		5,000		5,000	
b) Capital reserves		995,000		995,000	
			1,000,000		**1,000,000**
Total liabilities	21		**8,163,810**		**7,732,143**

1 Contingent liabilities			
Liabilities under guarantees and warranty agreements	22	55,558	33,344
2 Other obligations			
Irrevocable loan commitments	22	1,316,891	892,819

Notes to the financial statements

of Siemens Bank GmbH, Munich,
for the fiscal year from October 1, 2019 to September 30, 2020

Basis of accounting in the annual financial statements of Siemens Bank

Siemens Bank GmbH, Munich (hereinafter: Siemens Bank) is registered with the commercial register at the Local Court (Amtsgericht) of Munich, Germany, under HRB 185214.

The annual financial statements of Siemens Bank for the fiscal year ending on September 30, 2020, have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the German Accounting Regulation for Banks and Financial Services Institutions (RechKredV). The annual financial statements also comply with the provisions of the German Private Limited Companies Act (GmbHG).

The annual financial statements have been prepared in euros in accordance with section 244 HGB. For the purposes of clarity, amounts are shown in thousands of euros (€'000).

Pursuant to section 265 (8) HGB, any line items on the standard RechKredV forms that have remained blank have been omitted and the numbering has been adjusted accordingly to improve readability.

Due to rounding, individual figures in the annual financial statements may not add up exactly to the specified sum.

Accounting policies

Loans and advances to banks and customers

Loans and advances to banks and customers are carried at their principal amount or at cost, whereby any difference between the amount paid out and the principal amount is recognized as prepaid expenses or deferred income and reclassified to the income statement pro rata temporis, provided that such a difference has the nature of interest. Loans, advances and any other receivables are classified as current assets and are measured strictly at the lower amount of cost and market.

Pursuant to section 11 RechKredV, interest receivables in connection with loans and advances to banks and customers are reported under loans and advances to banks and customers, but are not included in the maturity-structure tables of assets and liabilities.

The risk allowances for losses in the lending business include both specific loan loss provisions and general loan loss provisions related to latent credit risks. Specific loan loss provisions continue to reflect individual loan defaults expected in connection with a loan exposure at risk of default. General loan loss provisions are based on borrower credit ratings, residual maturities and rating-related probability of default, and the proportion of loss in the event of a default. Rating-related default probabilities and default rates in the event of default are regularly validated and reviewed. The validation in fiscal 2020 also takes into account the impact of the COVID-19 pandemic. Siemens Bank also reviews the ratings of borrowers on a regular basis and whenever necessary.

Irrevocable loan commitments are reported in the balance sheet as other obligations and valued at the maximum outstanding drawdown amount.

Debt instruments of public institutions and bills of exchange that are eligible as collateral with central banks

This item comprises securities issued by foreign government bodies that serve to manage liquidity and are measured strictly at the lower amount of cost and fair value.

Bonds and other fixed-income securities

The securities recognized under this line item are classified as current assets and are measured strictly at the lower amount of cost and fair value.

Trust assets and liabilities

Trust assets and liabilities are reported in accordance with RechKredV at their nominal value or repayment amount, in analogy to the respective balance sheet item.

Intangible assets

This item includes goodwill from the acquisition of a service business from Siemens Treasury GmbH, Munich. The acquisition value is calculated as the difference between the purchase price and the values of the assets and liabilities transferred. Amortization is charged over 15 years in accordance with tax regulations in order to simplify the procedure.

Property and equipment

Property and equipment is measured at cost and reduced by depreciation on a straight-line basis over the estimated useful life of the property and equipment concerned. Movable fixed assets that can be used independently and whose individual cost is up to and including €250 are immediately expensed. In the case of additions with an individual cost of more than €250 but no more than €800, the items concerned are recognized on the balance sheet but written off in full in the year of acquisition.

Cash and cash equivalents and other assets

Cash and cash equivalents, together with other assets, are carried at their nominal amounts.

Liabilities

Liabilities are carried at their settlement amounts as of the balance sheet date. Pursuant to section 11 RechKredV, interest obligations in connection with deposits from banks or amounts due to customers are reported under amounts due to banks or customers, but are not included in the maturity-structure tables of assets and liabilities.

Deferred taxes

On any differences between the valuation of assets, debts and prepaid expenses or deferred income under trade law provisions and under tax law provisions respectively, taking into consideration deductible losses and interest carried forward, a surplus of deferred tax liabilities is recognized if it is to be assumed that there will be a tax burden overall in future fiscal years. While a surplus of deferred tax liabilities is recognized separately in the balance sheet, a surplus of deferred tax assets is not recognized.

Provisions for pensions

Pension benefit obligations are measured at the settlement amount determined in accordance with the actuarial projected unit credit method based on biometric probabilities (projected unit credit method). Estimated future increases in salaries and pensions are factored into the calculation of the present value of the defined benefit obligation. The discount rate used in the calculation is based on the relevant rate published by Deutsche Bundesbank for a maturity of 15 years. In order to determine the interest rate for the discounting of the provisions as of September 30, 2020, Siemens Bank, as in previous years, uses a ten-year average. Based on the existing profit-and-loss transfer agreement with Siemens AG, income from this adjustment is not subject to the dividend payout restriction.

Pursuant to the German Occupational Pensions Act (BetrAVG) and the UK Pensions Act 1995, Siemens Bank continues to be liable at a subsidiary level for pensions that are provided via an indirect route. If the relevant assets of the pension fund (or the Pensionskasse or Unterstützungskasse) failed to cover the settlement amount for the associated pension commitments, Siemens Bank would cover the shortfall by recognizing a provision under provisions for pensions and similar obligations.

Netting of assets and liabilities, income and expense

Assets whose sole purpose is to satisfy pension obligations or residual partial retirement obligations and that cannot be the subject of a claim by any other creditors are measured at fair value. Income and expenses associated with these assets are netted with the interest cost in connection with the unwinding of discounts on the corresponding obligations and are reported under general administrative expenses, social security, post-employment and other employee benefit costs, and under other operating expenses. In addition, these assets are offset against the corresponding underlying obligation. If this results in a surplus obligation, this obligation is reported under provisions. If the value of assets exceeds the obligations, the amount is reported as an excess of plan assets over pension liabilities.

Provisions for taxes and other provisions

Provisions are recognized in accordance with tax law to cover current taxes.

Provisions are reported at the settlement amount that is appropriate according to diligent commercial judgement. Provisions include individual appropriate and adequate provisions for all identifiable risks arising in connection with contingent liabilities and for imminent losses arising from pending transactions, taking into account estimated future increases in prices and costs. Non-current provisions (i.e. provisions with a maturity of more than one year), if material, are discounted using the average market discount rate applicable to amounts of equivalent residual maturity. This market discount rate is determined and published by Deutsche Bundesbank. Interest income and interest expense in connection with discounting and unwinding the discount on provisions are reported under other operating income and expense because they are unrelated to banking operations.

For all interest-rate-related financial instruments in the banking book, Siemens Bank provides evidence – in accordance with the principle of loss-free valuation – that no losses will be incurred in the future from contracted interest-rate positions. This is done by comparing the net present value of the banking book with its net carrying amount, taking into consideration expected losses and present value general administrative expenses from the resolution of the existing portfolio. If the net carrying amount is greater than the net present value, there is a requirement for the recognition of a corresponding provision. As in the previous year, there was no requirement as of September 30, 2020, for the recognition of a provision for onerous contracts pursuant to section 340a HGB in conjunction with section 249 (1) sentence 1 HGB.

Currency translation

Amounts denominated in foreign currency are translated at the middle rate on the balance sheet date in accordance with section 256a HGB in conjunction with section 340h HGB. Current receivables and liabilities (i.e., due within one year) are translated with any differences being recognized in the income statement.

Siemens Bank also makes use of the concept of specific coverage for the measurement of amounts denominated in foreign currency. If assets and liabilities denominated in a foreign currency are subject to specific coverage, any associated income or expense arising from currency translation is recognized in the income statement. Assets that are not subject to specific coverage and liabilities with a maturity of more than one year are measured in accordance with the imparity principle.

Assets denominated in foreign currency are documented as specifically covered if they are matched by a countervailing liability or derivative in the currency concerned. Maturity mismatches are deemed to be permissible as long as there is the possibility and intention of entering into subsequent hedging deals. Only items eligible for specific coverage that are to be settled in cash may be included in the specific coverage arrangements. Any surplus from this measurement process is recognized under other assets or other liabilities. Any currency translation gain or loss is reported under other operating income or expense.

Derivative financial instruments

Siemens Bank only enters into derivative financial instruments to cover risks arising in connection with its banking business. Embedded floors result from minimum limits for interest agreed in loan agreements with variable interest rates. As far as possible, currency-related transactions are accounted for as part of the specific coverage arrangements. Short-term interest-rate-related transactions are measured and recognized using the imparity principle because no designation to accounting groups (Bewertungseinheiten) as defined by the HGB can be demonstrated. For loan terms of one year or more, interest-related hedging deals are incorporated on a regular basis into HGB accounting groups.

All derivative financial instruments are measured at their fair values. Siemens Bank only uses generally accepted valuation methods and measurement parameters observable in the market for this measurement.

Income statement disclosures

1 Geographical breakdown and net interest income

The breakdown of the total amount for net interest income, fee and commission income, and other operating income by customers based in Germany and by customers based elsewhere is as follows:

in %	2020	2019
Germany	7	9
Elsewhere	93	91
of which EMEA region (Europe, Middle East, Africa)	*71*	*71*
of which AA region (Asia and Australia)	*22*	*20*

Negative interest included in the interest income and positive interest included in the interest expenses are disclosed separately in the income statement as prior-year figures in the form of a sub-item. They result mainly from funding transactions with the shareholder and from liquidity investments. For the Siemens Bank lending book, negative interest is of minor significance due to the structure of the terms and the geographical diversification.

2 Fee and commission income

Fee and commission income is derived from the following services:

(€'000)	2020	2019
Risk management and processing services for affiliated companies	30,340	28,224
Risk management services and credit business services for third parties	1,428	1,238
Total	**31,768**	**29,462**

3 Other operating income and expense

Other operating expense mainly includes the €1,418 thousand profit from currency translation (previous year: profit from currency translation of €1,140 thousand in other operating income).

Other operating expense also comprises expenses from unwinding the discount on provisions and in connection with additions to certain provisions. Expenses from unwinding the discount on provisions amounted to €887 thousand (previous year: €1,166 thousand).

4 Taxes on income

For both income tax and VAT purposes, the German activities of Siemens Bank form an integral part of the tax group of Siemens AG, Berlin and Munich (hereinafter: Siemens AG). Taxes on income for German activities therefore only include capital gains and foreign withholding taxes charged.

The London Branch of Siemens Bank forms part of the income tax group of Siemens plc, Frimley (United Kingdom). Due to the different design of the income tax structure in the United Kingdom, taxes on income include payments and additions to provisions for current income taxes as well as €442 thousand for prior years.

The Singapore Branch does not form part of an income tax group. In addition to deferred taxes, taxes on income also include payments and additions to provisions both for current income taxes as well as refunds in the amount of €42 thousand for previous years.

Deferred taxes for the London Branch result mainly from valuation differences between the annual financial statements according to the HGB and the tax balance sheet according to English tax law for receivables, pension assets, provisions and liabilities. As of September 30, 2020, this results in a surplus of deferred tax assets. The option to recognize deferred tax assets is not exercised by Siemens Bank.

As of September 30, 2020, deferred taxes for the Singapore Branch result from valuation differences between commercial law and tax law in Singapore for receivables, provisions and liabilities. This results in a surplus of deferred tax assets. The option to recognize deferred tax assets is not exercised by Siemens Bank.

As of September 30, 2020, there is a surplus of assets for the parent company, which is transferred to the controlling company Siemens AG.

The valuation of deferred taxes is based on a tax rate of 19.0 % in the United Kingdom and 13.5 % in Singapore.

5 Profit transferred under a profit-and-loss transfer agreement

Siemens Bank has a profit-and-loss transfer agreement with Siemens AG, its sole shareholder. Under this profit-and-loss transfer agreement, the entire net income after tax determined in accordance with the HGB, amounting to €61,262,410.86, is transferred to Siemens AG.

Balance sheet disclosures

6 Debt instruments of public institutions and bills of exchange that are eligible as collateral with central banks

This item comprises unlisted, short-term treasury bills with a residual maturity of less than one year.

7 Loans and advances to banks

(€'000)	2020	2019
Loans and advances to banks with maturities of	**322,000**	**53,999**
(excluding loan loss allowances and interest accruals)		
up to and including 3 months	322,000	53,999
more than 3 months and up to 1 year	0	0
more than 1 year and up to 5 years	0	0
more than 5 years	0	0

8 Loans and advances to customers

(€'000)	2020	2019
Loans and advances to customers with maturities of	**7,235,148**	**7,261,803**
(excluding loan loss allowances and interest accruals)		
up to and including 3 months	31,162	50,771
more than 3 months and up to 1 year	718,812	640,804
more than 1 year and up to 5 years	2,628,581	2,445,699
more than 5 years	3,856,592	4,124,530

Loans and advances to customers include loans and advances to affiliated companies with a value of €133,860 thousand (previous year: €245,677 thousand). As in the previous year, this item does not include any receivables from the shareholder.

9 Bonds and other fixed-income securities

This item consists of listed corporate bonds acquired by Siemens Bank as part of its lending business. The item has a residual maturity of more than one year.

10 Trust assets and liabilities

Trust assets and liabilities comprise loans and advances to customers and liabilities to customers denominated in euros with agreed maturities or notice periods.

11 Intangible assets

The changes in intangible assets over the 2020 fiscal year were as follows:

(€'000)	Cost				
	Oct. 1, 2019	**Additions**	**Transfers**	**Disposals**	**Sep. 30, 2020**
Intangible assets	**1,683**	**0**	**0**	**0**	**1,683**
Goodwill	1,683	0	0	0	1,683

(€'000)	Depreciation and value adjustments				Carrying amount	
	Oct. 1, 2019	**30. Sep 20**	**year**	**disposals**	**2020**	**2019**
Intangible assets	**-56**	**-168**	**-112**	**0**	**1,515**	**1,627**
Goodwill	-56	-168	-112	0	1,515	1,627

The changes in intangible assets in the previous fiscal year had been as follows:

(€'000)	Cost				
	Oct. 1, 2018	**Additions**	**Transfers**	**Disposals**	**Sep. 30, 2019**
Intangible assets	**0**	**0**	**1,683**	**0**	**1,683**
Goodwill	0	0	1,683	0	1,683

(€'000)	Depreciation and value adjustments				Carrying amount	
	Oct. 1, 2018	**30. Sep 19**	**year**	**disposals**	**2019**	**2018**
Intangible assets	**0**	**-56**	**-56**	**0**	**1,627**	**0**
Goodwill	0	-56	-56	0	1,627	0

12 Statement of changes in fixed assets

The changes in property and equipment over the 2020 fiscal year were as follows:

(€'000)	Cost				
	Oct. 1, 2019	**Additions**	**Transfers**	**Disposals**	**Sep. 30, 2020**
Property and equipment	**370**	**66**	**-12**	**-120**	**304**
Office furniture and equipment	370	66	-12	-120	304

(€'000)	Depreciation and value adjustments				Carrying amount	
	Oct. 1, 2019	**30. Sep 20**	**Current year**	**of which disposals**	**2020**	**2019**
Property and equipment	**-243**	**-215**	**-100**	**128**	**90**	**127**
Office furniture and equipment	-243	-215	-100	128	90	127

The changes in property and equipment in the previous year had been as follows:

(€'000)	Cost				
	Oct. 1, 2018	**Additions**	**Transfers**	**Disposals**	**Sep. 30, 2019**
Property and equipment	**289**	**150**	**-1**	**-67**	**370**
Office furniture and equipment	289	150	-1	-67	370

(€'000)	Depreciation and value adjustments				Carrying amount	
	Oct. 1, 2018	**30. Sep 19**	**year**	**Disposals**	**2019**	**2018**
Property and equipment	**-172**	**-243**	**-145**	**74**	**127**	**117**
Office furniture and equipment	-172	-243	-145	74	127	117

Property and equipment is used exclusively in connection with banking operations.

13 Other assets

Other assets mainly comprise receivables arising from pending incoming payments in the lending and fee business amounting to €2,291 thousand (previous year: €4,368 thousand) and receivables arising from taxes on income amounting to €34 thousand (previous year: €466 thousand). The prior-year figure also included accrued interest from interest-rate swaps in the amount of €510 thousand.

14 Prepaid expenses and deferred income

(€'000)	2020	2019
Prepaid expenses	**3,095**	**3,490**
Premium on loans and advances	1,061	1,346
Other deferred income	2,034	2,144
Deferred income	**42,845**	**42,880**
Discount on loans and advances	13,749	13,986
Other deferred income	29,096	28,894

Other deferred income largely relates to deferred fee income in the credit business.

15 Amounts due to banks

(€'000)	2020	2019
Amounts due to banks *(excluding interest accruals)*	**8,493**	**8,750**
up to and including 3 months	257	0
more than 3 months and up to 1 year	386	386
more than 1 year and up to 5 years	2,059	2,059
more than 5 years	5,790	6,305

The maturity breakdown of the previous year was adjusted.

16 Amounts due to customers

(€'000)	2020	2019
Amounts due to customers with maturities of *(excluding interest accruals)*	**6,570,850**	**6,252,905**
up to and including 3 months	1,031,062	473,562
more than 3 months and up to 1 year	1,920,125	1,966,625
more than 1 year and up to 5 years	2,795,596	2,839,379
more than 5 years	824,068	973,340

Of the amounts due to customers, €6,524,234 thousand (previous year: €6,156,418 thousand) is accounted for by transactions with affiliated companies. Within this total of amounts due to customers, an amount of €6,303,825 thousand is due to the shareholder (previous year: €5,931,056 thousand).

Siemens Bank has not pledged any assets as collateral for amounts due to customers, nor has it transferred any assets as collateral.

Siemens Bank is a participating institution in the German banks' compensation fund (Entschädigungseinrichtung deutscher Banken GmbH), Berlin.

17 Other liabilities

The breakdown of other liabilities is as follows:

(€'000)	2020	2019
Other liabilities	**70,260**	**95,481**
Liabilities to the shareholder	61,507	81,421
Withholding tax and duties to be paid	2,992	7,832
VAT liabilities and other items	4,286	3,950
Personnel-related obligations	1,475	2,278

Liabilities to the shareholder mainly include the profit-and-loss transfer agreement. All other liabilities have terms of up to one year.

18 Provisions for pensions and similar obligations

Siemens Bank provides various forms of occupational pensions for the employees in Germany and in the United Kingdom whose employment contracts were transferred to Siemens Bank as part of the transfer of a business as well as for new employees. To fund these occupational pensions, Siemens Bank has covered its obligations partly by assets that are held externally in trust and subject to restricted access.

The majority of current employees at Siemens Bank in Germany participate in the Siemens defined contribution plan (BSAV – Beitragsorientierte Siemens Altersversorgung) launched in 2004. BSAV is a pension program covered by assets held in trust. For the most part, the benefits depend on the company's contributions made to the scheme and on the investment income from these contributions, although the company guarantees a minimum return. A lower proportion of current employees still have legacy pension entitlements (known as transitional payments) that are based on the salary of the employee concerned.

In addition, Siemens Bank offers employees the option of participating in a voluntary deferred compensation scheme. The salary components deferred under this scheme are invested in fund units. The fund units are only used to cover the resulting pension obligations and are protected against claims from other creditors. These assets, which had a fair value determined using recognized valuation methods (stock market prices) of €918 thousand as of September 30, 2020 (previous year: €842 thousand) and a cost value of €765 thousand (previous year: €691 thousand), are therefore fully offset against the pension obligations up to the amount of these obligations of €797 thousand (previous year: €787 thousand). Income and expenses each in the amount of €105 thousand (previous year: €146 thousand) were netted.

In addition, on behalf of the employees at the London Branch, Siemens Bank participates in the pension scheme operated by the Siemens Group for employees in the United Kingdom. Here, contributions are paid into a pension plan without any additional obligations for Siemens Bank. Where employees have been given further fixed pension entitlements in a few individual cases, these pension entitlements are covered directly by the Siemens Pensions Trust. Siemens Bank only has an indirect liability for these obligations if the resources of the Trust turn out to be inadequate to cover the pension obligations. The assets assigned to the Trust, which had a fair value determined using recognized valuation methods of €2,222 thousand (previous year: €2,233 thousand), are therefore fully offset against this pension obligation up to the amount of this obligation of €2,008 thousand (previous year: €1,954 thousand).

Siemens Bank has not assumed any pension obligations for the employees at the Singapore Branch.

For the 2020 fiscal year, the total settlement amount for the pension provisions amounted to €16,438 thousand (previous year: €15,120 thousand), of which €2,501 thousand (previous year: €2,408 thousand) was accounted for by indirect obligations fully covered by assets, so that pension provisions of €13,937 thousand (previous year: 12,712 thousand) are recognized. The actuarial measurement of the settlement amount was based on a number of variables including discount rates of 2.41 % (ten-year average) and 1.71 % (seven-year average) respectively. Last year, the discount rates were 2.82 % (ten-year average) and 2.05 % (seven-year average) respectively. Other variables used as a basis were a salary growth rate in Germany of 2.25 % per annum (previous year: 2.25 %) and a pension growth rate of 1.5 % per annum (previous year: 1.5 %). For employees at the London Branch, a salary trend of 2.6 % per annum is expected (previous year: 3.5 %) and a pension growth rate of 2.8 % per annum (previous year: 2.9 %). Mortality tables developed specifically for the Siemens Group and last adjusted in fiscal 2020 (Siemens Bio 2017) were used as the biometric calculation basis. These replace the 2005G guideline tables from Klaus Heubeck, which had been used to date and had been modified specifically for the Bank. The Heubeck RT 2018 mortality tables are not used because the Siemens-specific tables contain a better estimate of the mortality trend.

The adjustment of the discount rate from a seven-year average to a ten-year average results in a difference of €1,555 thousand (previous year: €1,629 thousand). Based on the existing profit-and-loss transfer agreement with Siemens AG, this income is not subject to the dividend payout restriction. In the context of determining the liabilities from the deferred compensation scheme, Siemens Bank exercised a lock-in option for accrued profits. The exercising of this option constitutes an adjustment of the plan. The resulting income of €124 thousand (previous year: €58 thousand) was offset against free capital provisions in order to determine the dividend payout restriction.

19 Other provisions

The changes in other provisions over the 2020 fiscal year were as follows:

(€'000)	Oct. 1, 2019	Transferred	Utilized
Other provisions	**14,449**	**-151**	**-2,439**
of which with maturities up to 1 year	9,186	77	-2,424

(€'000)	Reversed	New	Sep. 30, 2020
Other provisions	**-1,319**	**835**	**11,375**
of which with maturities up to 1 year	-521	1,918	8,237

The changes in other provisions in the previous fiscal year had been as follows:

(€'000)	Oct. 1, 2018	Transferred	Utilized
Other provisions	**10,378**	**155**	**-6,289**
of which with maturities up to 1 year	8,297	691	-6,289

(€'000)	Reversed	New	Sep. 30, 2019
Other provisions	**-904**	**11,110**	**14,449**
of which with maturities up to 1 year	-839	7,326	9,186

Transfers result from the assumption of personnel-related obligations taken over in the course of transfers of employees within the group, or from changed maturities of long-term provisions.

Other provisions are recognized mainly for personnel-related obligations, such as variable income components, outstanding vacation pay and long-service bonuses.

(€'000)	2020	2019
Other provisions	**11,375**	**14,449**
Personnel-related provisions	9,383	10,420
Provisions for year-end costs	1,705	1,721
Provisions relating to lending business	287	2,309

Provisions related to lending business result from the recognition of obligations from guarantees.

20 Equity

As last year, there were no changes to the components of equity in the 2020 fiscal year.

Due to plan adjustments of the pension plans from deferred compensation schemes, €124 thousand of the capital provisions are subject to a payout restriction (previous year: €58 thousand).

21 Assets and liabilities denominated in foreign currency

Siemens Bank has assets and liabilities denominated in foreign currency in the following equivalent amounts:

(€'000)	2020	2019
Assets denominated in foreign currency	**4,032,329**	**4,150,974**
Liabilities denominated in foreign currency	**4,035,560**	**4,136,119**

Other disclosures

22 Off-balance-sheet transactions

Siemens Bank grants irrevocable loan commitments as part of project finance or lines of credit in order to satisfy the financing needs of its customers. Commitments that have not yet been drawn down by customers and that cannot be revoked by Siemens Bank are reported below the line on the balance sheet.

Siemens Bank has contingent liabilities arising from lines of credit it has granted to customers for the issue of guarantees. Under these guarantee credit facilities, Siemens Bank must make payments to the beneficiary if the Siemens Bank customer fails to meet its obligations. There is no way of knowing whether or when a payout might be required, or what the amount of any payout might be. The maximum potential amount of claims is therefore reported below the line on the balance sheet.

23 Derivative financial instruments

Siemens Bank held the following derivatives as of September 30, 2020:

	Nominal amount				
	2020			Total amount	
(€'000)	≤ 1 year	>1 – 5 years	> 5 years	2020	2019
Interest-rate derivatives					
OTC interest-rate swaps	220,000	174,500	0	394,500	506,500
Embedded floors	15,735	0	0	15,735	15,673
Currency-related transactions					
FX swaps	0	0	0	0	5,306

The fair values of the derivatives as of September 30, 2020 were as follows:

	Market values (including accrued interest)			
	Positive		**Negative**	
(€'000)	**2020**	**2019**	**2020**	**2019**
Interest-rate derivatives				
OTC interest-rate swaps	1,199	2,031	-1,026	-1,897
Embedded floors	0	51	0	0
FX swaps	0	0	0	-23

In fiscal 2020, unchanged compared to the previous year, Siemens Bank fully hedged a fixed-interest deposit and several promissory note loans with a total volume of €203,000 thousand against interest-rate-induced market risks by means of interest rate swaps OTC for a period of up to two years, and designated these hedges as an HGB accounting group. These accounting groups were used to hedge valuation effects from interest-rate risks amounting to €1,680 thousand (previous year: €2,910 thousand). The effectiveness of the accounting group is proved by a comparison of the interest-induced changes in market value. For recognition, Siemens Bank has applied the net hedge presentation method, according to which the ineffective part of the accounting group is to be recognized using the imparity principle. For this, Siemens Bank recognized provisions for onerous contracts amounting to €156 thousand (previous year: €228 thousand), which are recorded under other provisions as a component of the provisions for year-end costs.

For short-term interest swap transactions OTC that are not incorporated into accounting groups, Siemens Bank recognized provisions for onerous contracts amounting to €273 thousand (previous year: €796 thousand), which are also recorded under other provisions as a component of the provisions for year-end costs.

24 Other financial obligations

Other financial obligations for the following years amount to €29,457 thousand (previous year: €28,958 thousand). These mainly relate to obligations arising from purchase and outsourcing agreements as well as from rental agreements. This amount includes obligations to affiliated companies in the amount of €26,387 thousand (previous year: €25,868 thousand).

25 Employees

Siemens Bank employs staff at its offices in Munich, Nuremberg, Erlangen, London and Singapore. Average employee numbers were as follows:

Employees	2020	2019
Siemens Bank GmbH	**222.6**	**218.5**
Munich branch (including Nuremberg and Erlangen)	**168.2**	**164.7**
Employment contracts total	175.0	171.2
of which part-time	26.0	28.0
London branch	**32.4**	**33.0**
Employment contracts total	33.0	33.0
of which part-time	0.0	0.0
Singapore branch	**22.0**	**20.8**
Employment contracts total	21.4	20.8
of which part-time	0.0	0.0

The figures represent staff capacities, unless marked as employment relationships.

26 Members of the Management Board and Supervisory Board

The following persons have been appointed as managing directors:

- Roland Chalons-Browne, Chairman and Chief Executive Officer of Siemens Bank
- Dr. Ingeborg Hampl, member of the Management Board and Chief Risk Officer of Siemens Bank
- Dr. Christoph Baumgarten, member of the Management Board and Chief Financial Officer of Siemens Bank

Roland Chalons-Browne did not receive any remuneration for his activities in the 2020 fiscal year.

A Supervisory Board in accordance with the statutes has been established with the following members:

- Veronika Bienert, member of the Management Board of Siemens Financial Services GmbH, Munich, and Chief Financial Officer of the Financial Services unit of Siemens AG,
- Dr. Peter Rathgeb, Chief Executive Officer of Siemens Treasury GmbH, Munich, and Corporate Treasurer of Siemens AG.

Veronika Bienert is the chair and Dr. Peter Rathgeb is deputy chair of the Supervisory Board. Neither acting nor retired members of the Supervisory Board received any remuneration or pension entitlements from Siemens Bank for their activities as Supervisory Board members in the 2020 fiscal year.

The Supervisory Board also performs the function of an audit committee.

In addition to his activities as CEO of Siemens Bank, Roland Chalons-Browne is also a member of the following supervisory bodies pursuant to section 340a (4) no. 1 of the HGB.

- Chairman of the Supervisory Board of RISICOM Rueckversicherung AG, Gruenwald
- Chairman of the Board of Directors of Siemens Financial Services Inc., Iselin, New Jersey, United States

27 Membership in a corporate group

Siemens Bank is a wholly-owned subsidiary of Siemens AG, Berlin and Munich, and is incorporated into the parent company's consolidated financial statements. The consolidated financial statements of Siemens AG are submitted for publication in the electronic German Federal Gazette (Bundesanzeiger). Pursuant to section 285 no. 21 of the HGB, Siemens Bank did not enter into any transactions in the year under review with related companies or individuals on terms that were other than on an arm's length basis.

28 Auditor's fee

The auditor's fee for the 2020 fiscal year amounts to €340 thousand (previous year: €322 thousand). The fee also includes the audit of the Singapore Branch and relates entirely to audit services for the financial statements.

29 Events after the balance sheet date

There were no significant events to report following the end of the fiscal year.

Munich, November 24, 2020

The Management Board

signed	signed	signed
Roland Chalons-Browne	Dr. Ingeborg Hampl	Dr. Christoph Baumgarten

Disclosures pursuant to section 26a (1) 2 and 4 of the German Banking Act (KWG)

Annex to the annual financial statements of Siemens Bank GmbH, Munich,
for the fiscal year from October 1, 2019 to September 30, 2020

Siemens Bank maintained the following branches in member states of the European Union as of September 30, 2020:

- Germany: Siemens Bank GmbH, Otto-Hahn-Ring 6, 81739 Munich (head office) with offices in Erlangen and Nuremberg
- United Kingdom: Siemens Bank GmbH, London Branch, 111 Old Broad Street, London, EC2N 1AP

As of September 30, 2020, Siemens Bank had one branch office in a country outside the European Union:

- Singapore: Siemens Bank GmbH, Singapore Branch, 60 MacPherson Road, Singapore, 348615

The consolidated breakdown of operations at these branches is as follows:

	Germany		**United Kingdom**		**Singapore**	
(* €'000)	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Business type	Lending and guarantee business Deposit business Fee business		Lending and guarantee business Fee business		Lending and guarantee business Fee business	
Figures						
Sales revenue *	56,415	39,764	77,694	83,134	59,291	60,274
Profit before tax *	16,984	42,939	40,279	33,032	16,454	16,004
Taxes on profit *	-335	-300	-9,260	-7,829	-2,862	-2,426
Government assistance received *	0	0	0	0	0	0
Number of employees on payroll	168.2	163.9	33.0	31.0	22.0	23.0

Net interest income and net commission income are aggregated as sales revenues.

Return on investment pursuant to section 26a (1) 4 KWG was 0.8 % (previous year: 1.1 %).

Independent Auditor's Report

To Siemens Bank GmbH, Munich

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

OPINIONS

We have audited the annual financial statements of Siemens Bank GmbH, Munich – which comprise the balance sheet as per September 30, 2020 and the income statement for the fiscal year from October 1, 2019 to September 30, 2020 as well as the notes to the financial statements, including the presentation of the accounting and valuation methods.

In addition, we have audited the management report of Siemens Bank GmbH for the fiscal year from October 1, 2019 to September 30, 2020.

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

- the attached annual financial statements comply in all material respects with the requirements of German commercial law applicable to business corporations and give a true and fair view in accordance with German generally accepted accounting principles and German commercial law of the net assets and financial position of the Company as of September 30, 2020 and of its results of operations for the fiscal year from October 1, 2019 to September 30, 2020; and

- the attached management report as a whole provides a correct view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and correctly presents the opportunities and risks of future development.

In accordance with section 322 (3) 1 HGB, we confirm that our audit has not led to any objections regarding the legal compliance of the annual financial statements and the management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the annual financial statements and of the management report in accordance with section 317 HGB and the EU Audit Regulation (No. 537/2014; hereinafter: "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftspruefer (Institute of Public Auditors in Germany, IDW). Our responsibility under these rules and principles is further described in the "AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT" section of our audit opinion.

We are independent of the Company in accordance with the requirements of European law and German commercial and professional law and have performed our other German professional responsibilities in accordance with these requirements.

In addition, in accordance with Article 10 (2f) of the EU Audit Regulation, we declare that we have not provided any non-audit services prohibited under Article 5 (1) of the EU Audit Regulation.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and the management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from October 1, 2019 to September 30, 2020. These matters were taken into account in the context of our audit of the annual financial statements as a whole and in forming our opinion thereon; we do not provide a separate opinion on these matters.

We identified the following as a key audit matter:

Identification and measurement of impaired loans and advances to customers

Facts

At €7,142 million (previous year: €7,204 million) or 88% (previous year 93%) of total assets, loans and advances to customers represent the largest asset item at Siemens Bank GmbH. The measurement of impaired loans and advances to customers and the assessment based on this of any necessary specific loan loss provisions is a key area in which management makes discretionary decisions. The identification of impaired loans and the determination of the lower fair value are subject to uncertainties and involve various assumptions and influencing factors, in particular with respect to the assessment of the counter-party's financial position, expectations of future cash flows, observable market prices and expectations regarding the net selling prices of loan receivables in the market as well as the determination of fair values for collateral provided. Minor changes in the assumptions may lead to significant changes in measurement, which may lead to a change in the need for loan loss provisions, particularly in the case of loans and advances to customers who are exposed to sustained negative market conditions.

As part of the audit, we determined the "identification and measurement of impaired loans and advances to customers" to be a particularly important aspect of the audit because loans and advances to customers account for a very high proportion of the balance sheet total of Siemens Bank GmbH and the assessment of the recoverability of loans and advances to customers and the appropriate recognition of specific loan loss provisions are to a large extent based on assessments and assumptions of the legal representatives.

The Company's disclosures on the identification and measurement of impaired loans and advances to customers are presented in the notes under "Accounting policies, loans and advances to banks and customers".

Auditor’s response

We have assessed the appropriateness and effectiveness of the internal control system with respect to the material lending processes with accounting relevance. The focus here was on the processes for calculating impairment losses, the processes for recognizing payment arrears and the process of analyzing information on the financial position of borrowers.

In addition, we performed audit procedures relating to specific declarations on the basis of a risk-oriented selection and of a supplementary sample check, and assessed the appropriateness of the calculation of the specific loan loss provisions. The risk-oriented selection included in particular the loans subject to intensified obligo management and problem obligo management.

In detail, we retraced the key assumptions in the context of the process of determining loan loss provisions. This included reviewing individual estimates of expected future cash flows, including cash flows from the realization of loan collateral. The effects of extension agreements were also taken into account. In the course of our audit, we assessed the competence, abilities and objectivity of the experts employed by the Bank. We retraced the assumptions underlying the external measurement reports for collateral and assessed their justifiability and the appropriateness of the measurement method used. We compared the data of Siemens Bank GmbH with the underlying contractual data in order to assess the legal validity of real and personal collateral provided.

OTHER INFORMATION

The legal representatives are responsible for the other information. Other information includes:

- the report by the management on the course of business in the introduction to the 2020 financial statement of Siemens Bank GmbH, Munich.

Our opinions on the annual financial statements and on the management report do not cover such other information and, accordingly, we do not express an opinion or any other form of audit conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our findings obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE LEGAL REPRESENTATIVES AND OF THE SUPERVISORY BOARD FOR THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

The legal representatives are responsible for the preparation of the annual financial statements in accordance with German commercial law applicable to business corporations, and for these annual financial statements giving a true and fair presentation in all material respects of the net assets, financial position and results of operations of the Company, in accordance with German generally accepted ac-counting principles. In addition, the legal representatives are responsible for the internal controls that they have determined to be necessary in accordance with German generally accepted accounting principles to enable the preparation of annual financial statements that are free from material misstatements – whether intentional or unintentional.

In preparing the annual financial statements, the legal representatives are responsible for assessing the Company's ability to continue as a going concern. They are also responsible for disclosing matters relating to the continuing operation of the entity, if relevant. In addition, they are responsible for rendering accounts on the basis of the going concern approach, except to the extent that this is contrary to fact or law.

In addition, the legal representatives are responsible for the preparation of the management report, which as a whole provides a true and fair view of the Company's position and is consistent with the annual financial statements in all material respects, complies with German legal requirements and correctly presents the opportunities and risks of future development. The legal representatives are also responsible for the precautions and measures (systems) that they have deemed necessary to enable the preparation of a management report in accordance with the applicable German legal provisions and to provide sufficient suitable evidence for the statements in the management report.

The supervisory board is responsible for over-seeing the Company's reporting process for the preparation of the annual financial statements and of the management report.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

Our objective is to obtain reasonable assurance as to whether the annual financial statements as a whole are free from material mis-statements – whether intentional or unintentional – and as to whether the management report as a whole provides a true and fair view of the Company's position and is consistent, in all material respects, with the annual financial statements and the findings of our audit, com-plies with German legal requirements and correctly presents the opportunities and risks of future development, and to issue an opinion that includes our audit report on the annual financial statements and the management re-port.

Reasonable assurance means a high level of assurance, but does not constitute a guarantee that an audit conducted in accordance with section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftspruefer (IDW) will always reveal any material misstatement. Misstatements may result from violations or inaccuracies and are considered material if it can reasonably be expected that they will individually or collectively influence the economic decisions of recipients made on the basis of these annual financial statements and the management report.

During the audit, we exercise due discretion and maintain a critical basic approach. In addition

- we identify and evaluate the risks of material misstatement – whether intentional or unintentional – in the annual financial statements and management report, plan and perform audit procedures in response to those risks, and obtain audit evidence sufficient and appropriate to provide a basis for our audit opinions. The risk that material misstatements will not be detected is greater for violations than for inaccuracies, as violations may involve fraudulent collusion, falsification, intentional incompleteness, misrepresentation, or the overriding of internal controls.

- we gain an understanding of the internal control system relevant to the audit of the annual financial statements and of the precautions and measures relevant to the audit of the management report in order to plan audit procedures that are appropriate in the circumstances. However, this is not done for the purpose of expressing an opinion on the effectiveness of those systems.

- we evaluate the appropriateness of the accounting methods used by the legal representatives as well as the reasonableness of accounting estimates made by the legal representatives and of the related disclosures.

- we draw conclusions about the appropriateness of the going concern ac-counting principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether there is any material uncertainty in connection with events or circumstances that may cast significant doubt on the Company's ability to continue as a going concern. Should we reach the conclusion that there is material uncertainty, we are obligated to call attention in our audit opinion to the related information in the financial statements and management report or, if such information is inappropriate, to modify our relevant audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit opinion. Future events or circumstances may, however, result in the Company no longer being able to continue as a going concern.

- we express an opinion on the overall presentation, the structure and the content of the annual financial statements, including the disclosures, as well as on whether the annual financial statements present the underlying transactions and events in such a way that the annual financial statements give a true and fair view of the Company’s net assets, financial position and results of operations, in accordance with German generally accepted accounting principles.

- we assess the consistency of the management report with the annual financial statements, its legal compliance and the overall view of the Company's position conveyed by it.

- we perform audit procedures on the prospective information presented by the legal representatives in the management report. On the basis of sufficient and appropriate audit evidence, we particularly verify the significant assumptions used by the legal representatives as a basis for the prospective information, and assess the proper derivation of the prospective information from these assumptions. We do not issue an independent opinion on the prospective information or on the underlying assumptions. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them regarding all relationships and other matters that may reasonably be assumed to affect our independence, as well as regarding the related safeguards taken.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosures about the relevant matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as auditors by the annual general meeting on January 20, 2020. We were appointed by the Chairman of the supervisory board on March 20, 2020. We have been the auditors of the financial statements of Siemens Bank GmbH without interruption since fiscal year 2018/2019.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (audit report).

In addition to the financial statement audit, we have provided to the Company or to entities it controls the following services that are not disclosed in the Company's annual financial statements or management report:

- Confirmation services in connection with the audit pursuant to part V. no. 11 (1) of the General Terms and Conditions of the Bundesbank (confirmation relating to the credit claims sub-mission (KEV) procedure)

RESPONSIBLE GERMAN PUBLIC AUDITOR

The German public auditor responsible for the audit is Daniel Schmiederer.

Frankfurt am Main, November 24, 2020

BDO AG
Wirtschaftsprüfungsgesellschaft

signed Otte	signed Schmiederer
Wirtschaftsprüfer	Wirtschaftsprüfer
(German public auditor)	(German public auditor)