SIEMENS BANK GMBH

# Annual Report
# 2022

SIEMENS

# Editorial

Dear Readers,

In 2022, we saw the easing of some issues that had been affecting our macro environment in years past, while confronting new challenges that emerged over the course of the past 12 months. Just as we began to move on from the pandemic and its after-effects, not least recovering from prolonged economic uncertainty, and embrace some much-needed stability, we were then faced with the conflict in Ukraine. Besides a direct impact on energy markets in Europe, this also has had a ripple effect globally, resulting in high rates of inflation and compounding supply chain disruptions across the board.

Despite the challenging geopolitical and macroeconomic environment, Siemens Bank has worked tirelessly to build on its achievements of last year and has continued to focus steadfastly on sustainability. We have actively pursued opportunities in decarbonization and energy efficiency and concentrated our efforts to improve resource efficiency and circularity. We have also sought to broaden the scope of sustainability by including the perspectives of people centricity and societal impact, i.e. to take account of the wider effects of our investments in technology and projects on mankind and society.

Some noteworthy projects this year with a strong sustainability angle include our first e-mobility transaction in partnership with Zenobē Energy, a leading UK-based fleet electrification service provider and battery storage specialist, helping power grid operators to provide clean, secure and affordable power and accelerating the global transition to a net-zero society.

We have also closed two electricity interconnector project financings, in support of Siemens Energy's successful competitive tenders, through which we continue to demonstrate our clear commitment in supporting the energy transition. As renewable generation grows, interconnectors will give countries more flexibility, allowing them to tap into their neighbours' power grids when the wind doesn't blow, or the sun doesn't shine, while allowing them to export clean, green energy across borders when a surplus is created. The first, Greenlink, is set to connect Ireland and Great Britain by 2024 and was the first privately financed interconnector in Europe. The second, NeuConnect, connects Germany and the UK, creating the first direct link between two of Europe's largest energy markets, with the capacity to power up to 1.5 million homes. Siemens Energy acts as one part of a joint venture for the engineering, procurement and construction contract (EPC) for Greenlink and as sole contractor to design and build two converter stations in Germany and the UK for NeuConnect.

**Siobhan Smyth**
Chief Executive Officer

Chairman
Management Board

**Dr. Ingeborg Hampl**
Chief Risk Officer

Member
Management Board

**Dr. Christoph Baumgarten**
Chief Financial Officer

Member
Management Board

Our green financing for three wastewater treatment plants in Saudi Arabia (Madinah 3, Tabuk 2 and Buraydah 2 ISTPs) will help optimize the use of water resources by providing recycled water, reducing the consumption of fresh water and contributing to Saudi Arabian water security. Beyond that, it further helps to mitigate climate change, while addressing the United Nations' Sustainable Development Goals (UN SDGs) on water and clean energy. We hope to be able to continue to offer additional financings in the Middle East region as an expanding market for infrastructure projects. Last but by no means least, we have this year consolidated our well-established presence in the renewables sector, including several large offshore wind deals in the UK and Europe. These successes are bright spots in a tumultuous year and serve to highlight our overarching commitment to ensuring energy transition and security of supply and to investing in fundamental infrastructure for the benefit of all in the long term. These are crucial areas that Siemens Bank is proud to support, now and in the future!

2022 was also a very special year for Siemens as a whole, as the company celebrated its 175-year anniversary. Just as true now as it was then – the greater Siemens group is a team of pioneers: Siemens has always delivered technological innovation in our products and services. Siemens does this by building on long-standing relationships, such as the one with India, which dates back to Siemens building the first ever Indo-European telegraph line from London to Kolkata in the 1860s. Today, the country represents an important growth market not only for Siemens but also for Siemens Bank, particularly in the field of renewable energy, and our relationship continues to go from strength to strength.

Siemens Bank GmbH
Management Board

# Contents

This version of the annual financial statements and the management report of Siemens Bank GmbH, Munich, has been prepared for the convenience of English-speaking readers and is a translation of the German original. For purposes of interpretation, the German text shall be authoritative and final.

## Management report



## Annual financial statements



## Independent Auditor's Report



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

# Management report

of Siemens Bank GmbH, Munich,
for the period from October 1, 2021 to September 30, 2022

# 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 of 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 its 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 types of business:

» Lending and guarantee business: The core business "Project and Structured Finance" focuses 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 syndicated project financing, but are currently not a significant element of the portfolio.
In the 2022 fiscal year, preparations were largely completed for the establishment of a new business segment, "Extended Payment Terms" (EPT), which will offer payment term extensions within the scope of receivables purchases for customers of Siemens units and of partners from the Siemens business ecosystem. The commencement of this business is currently planned for the first half of the 2023 fiscal year.

» Deposit and treasury business: The deposit business focuses on the receipt and investment of overnight money and time deposits from companies within 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 lending 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, but 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, Middle East, 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.

In addition to continuing supply bottlenecks, global economic development is characterized primarily by the impact of Russia's invasion of Ukraine. While the previous year's forecast for global growth of +5.6% in 2021% was exceeded by 0.3 percentage points (IHS Markit), global economic growth has weakened significantly since the second quarter of 2022. Last year's forecast of +4.5% growth in global GDP in 2022 must be revised downwards to +2.8% (IHS Markit) due to a number of risk factors.

High inflation, especially in the industrialized countries, is slowing down economic development. While average consumer price inflation at +3.6% in the developed countries was already above the central banks' targets in 2021, it will more than double this year to +8.5% compared to the previous year (IHS Markit). In the course of the past months, significantly higher producer prices have impacted consumer prices and inflationary pressures have spread to other areas, mainly through higher wage and unit labor costs. As nominal wage growth lags behind inflation, the real disposable income of private households has fallen in many countries, slowing the growth of private consumption. Central banks in many industrialized and emerging countries have reacted to above-target inflation with more stringent monetary policies and raised interest rates, thus tightening financing conditions for companies in a way that curbs economy activity. Overall, however, the interest rate increases already implemented or still expected by the central banks – especially in the eurozone – are moderate compared to the extent of inflation.

At the beginning of the year, the economy in Europe recovered from the economic impact of the COVID-19 pandemic and the accompanying lifting of restrictions is supporting private consumption. However, economic outlook in Europe is currently being significantly influenced by the sharp rise in energy prices. Due to the reduction of natural gas supplies from Russia to Europe and the resulting substitution and coupling effects, all energy sources such as gas, LNG, coal, oil as well as electricity generated from the above are affected by significant price increases. In view of the disruptions in the energy markets, some European economies are expected to experience a decline in economic output in the short term. Overall, real economic growth in the eurozone will fall to +3.1% this year from +5.2% (IHS Markit) last year, and in the UK to +4.2% from +7.45% (IHS Markit) last year.

In contrast to the downturn in Europe, the economic climate in the Asia-Pacific region is relatively robust. Economic growth in 2022 in Australia will be stronger than in Europe, and will stand at +3.8% (IHS Markit). In China, growth this year is expected to fall to +3.0% from +8.1% in the previous year (IHS Markit) due to prolonged lockdowns under the government's official Zero-COVID policy and a consolidation in the real estate market. Other countries in Asia were not that severely affected by the slowdown in China and, in contrast to Western industrialized nations, countries such as India continue to show strong growth momentum, as does the Middle East with aggregate growth of +6.6% in 2022.

In terms of overall new business environment, the first and second quarters of the fiscal year were characterized by a significant increase in refinancing and new business due to the further economic recovery after the severe restrictions of the COVID-19 pandemic. However, since February, the Ukraine conflict and its impact have had a predominant influence on economic development, and materially impaired the second half of the 2022 fiscal year. This was reflected in the third quarter in a significant decline in refinancing and new business, which only increased again in the fourth quarter.

In the financing of projects and equipment investments, for which longer-term and therefore less cyclical planning cycles are regularly relevant, as well as in project financing in the infrastructure sector, which has proven to be quite resilient to credit defaults, even in the environment of the COVID-19 pandemic, Siemens Bank continues to observe ongoing intense competition in the search for attractive risk-return profiles. On the other hand, a great deal of uncertainty can be felt in the markets overall. Due to the difficult macroeconomic environment and the overall significant increase in interest rates, higher interest margins than in previous years could once more be achieved in some asset classes. In many Asian markets, the market and competitive situation is somewhat less characterized by uncertainties than in Europe. Due to its broad geographic positioning, Siemens Bank was able to compensate in other markets for weak developments in individual geographic markets or industries.

After the COVID-19 pandemic posed major challenges to the Bank's internal processes and controls, as many employees predominantly worked remotely or from home, Siemens Bank gradually returned to operational normality in the 2022 fiscal year. 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 introduced new regulatory requirements as of 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 were implemented, including new large exposures regulations and new disclosure obligations.

In August 2021, the new Transparency Register and Financial Information Act (Transparenzregister- und Finanzinformationsgesetz) came into force. This resulted, among other things, in a revision of the Money Laundering Act (Gesetz über das Aufspüren von Gewinnen aus schweren Straftaten).

The last requirements from the Financial Market Integrity Strengthening Act (Finanzmarktintegritätsstärkungsgesetz) and the Risk Reduction Act (Risikoreduzierungsgesetz) were also implemented in the past fiscal year. Also, the final measures from the memorandum on Requirements for Managing Directors and Members of the Administrative or Supervisory Body ("Anforderungen an Geschäftsleiter und Mitglieder des Verwaltungs- oder Aufsichtsorgans") of the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) were introduced. In 2021, the sixth amendment to MaRisk and its requirements were implemented as of December 31, 2021. The implementation of the new, seventh amendment is expected for the 2022/ 2023 fiscal year.

At the end of 2021, the European Commission's proposals on CRR III and CRD VI were published. This now heralds the final steps towards the adoption of the revised Basel framework in the European Union.

The current CRR III draft includes, in particular, far-reaching changes in the Credit Risk Standardized Approach (STA), the Internal Ratings-Based Approach (IRBA) as well as in the capital requirements for operational risk. In addition, the so-called output floor will be introduced in the EU – with a transitional period of several years – which will limit the benefit from the application of internal ratings or risk models in the future.

In addition to the changes in CRR III, CRD VI contains further new regulations. Particularly noteworthy are, among other things, the suitability and reliability of management body members ("fit & proper") as well as the regulations on SREP and the inclusion of ESG factors in risk management.

While the implementation date for CRR III is set for January 1, 2025, the entry into force of CRD VI is planned earlier, although it is yet to be transposed into national law.

The simplifications in German reporting practice, which were enacted by the regulatory authority in the course of COVID-19, largely expired as of June 30, 2022. At the same time, part of the COVID-19 reporting was discontinued.

In April 2021, the European Commission adopted a comprehensive package of sustainability measures, through which the topic of sustainability has gained further importance for the banking sector. With the publication of the first two delegated regulations on EU Taxonomy regarding mitigation of climate change and adaptation to existing climate change, the technical criteria were defined as to which economic activities make a significant contribution to climate protection or climate change adaptation. The BaFin memorandum on sustainability risks published in 2020 will also result in requirements for the further development of risk management in Pillar 2. Siemens Bank is currently not obligated to disclose sustainability and ESG risks.

The European Parliament's Digital Operational Resilience Act (DORA), the final version of which is still expected in 2022, contains requirements relating to information and communication (ICT) risk management, classification and reporting of ICT-related incidents, digital operational resilience testing, contractual arrangements between third-party ICT service providers and financial institutions, the regulatory framework for critical third-party ICT service providers, and rules for information sharing. After DORA comes into force, there will be a transitional period for implementation yet to be determined.

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

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 has been extended substantially under the new standard. The Notice has been applicable since July 2021. The MAS reporting requirements for top borrower groups are currently being revised and the reporting obligation is scheduled to come into force in the summer of 2023.

# 1.4 Business performance

The 2022 fiscal year was significantly marked by the effects of the Ukraine conflict. Despite this, the portfolio in the core lending business grew more strongly during the year than originally forecast at the beginning of the fiscal year. Profitability of the portfolio, which is reflected in a significant increase in net interest income, also exceeds expectations overall. The significant increase in additions to provisions for losses on loans and advances is primarily due to the provisioning for an exposure in the European energy infrastructure sector, which has been adversely affected by the Ukraine conflict.

As a result, profit from operations is significantly below Siemens Bank's planning, primarily due to the aforementioned provisioning. However, the management is satisfied with the course of business in the 2022 fiscal year, especially against the background of the difficult overall economic situation and in consideration of special effects.

## Net assets

Siemens Bank's net assets in the 2022 fiscal year are characterized by increasing volumes in both the lending and treasury businesses.

The volume of business in the **core lending business** (including guarantees) increased by 9% in the 2022 fiscal year, after a moderate growth of 4% in the previous year. It should be noted, however, that part of the growth is due to currency effects, especially the strong USD.

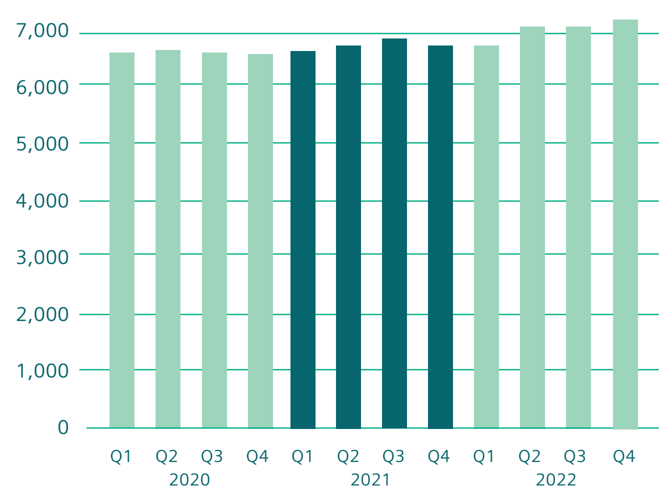



Figure 1: Development of loans and advances to customers in the lending business (€ million)

The significant economic recovery from the COVID-19 pandemic already observed in the 2021 fiscal year continued with increased business activity during the 2022 fiscal year. The market once again saw an increase in refinancing, both in the project financing business and in corporate loans, which continued to be reflected in a high level of early repayments and new business volume. In the second quarter in particular, new business exceeded the expiring volume and led to significant growth in the lending portfolio. The positive trend was then clearly slowed down with the start of the Ukraine conflict in the third quarter, but continued again in the fourth quarter. This was also reflected in the very high level of irrevocable loan commitments at the end of the fiscal year amounting to €1,745 million, which increased again compared to the previous year (€1,544 million). Contingent liabilities from guarantees, which form a small part of the portfolio, remain at €89 million (previous year: €75 million) and are part of project financing granted.

The focus of the lending portfolio in the 2022 fiscal year, as in the previous year, was on activities in the areas energy (renewables, energy management), infrastructure (including traffic) and health. In addition to project financing, Siemens Bank has a corporate lending portfolio that is well diversified both in terms of regions and industries.

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 provided there are business opportunities with an attractive risk-return profile in the lending market concerned.

In the **deposit and treasury business**, the Group financing portfolio, which forms an integral part of the loans and advances to customers, fell to €76 million (previous year €116 million). 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 is of minor significance within the business model of Siemens Bank as a whole.

Within the deposit and treasury business, the development of liquidity-related 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.

In the 2022 fiscal year, liquidity investments at the central bank were generally slightly higher than in previous years. These are due to short-term investments by the Siemens Group, as is the significant increase in the second quarter of the 2021 fiscal year, which only lasted for a few weeks. In a year-on-year comparison, the portfolio of highly liquid assets for purposes of liquidity reserve and liquidity control remained almost constant (previous year: reduction by 14%). This means that liquidity-related investments were at the expected level.

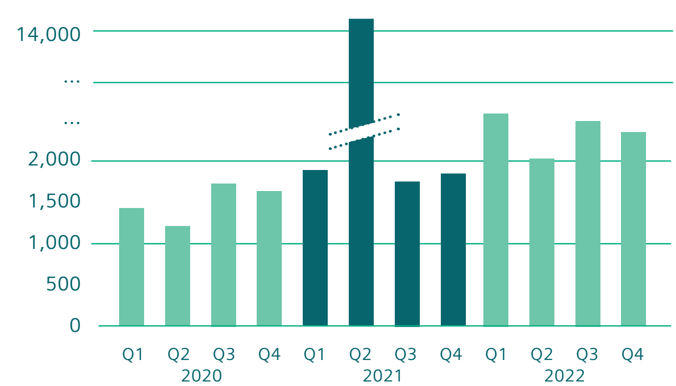



Figure 2: Change in liquidity-related investments in the ALM and treasury business (€ million)

## Financial position

The business activities of Siemens Bank are largely refinanced by deposits and equity. Here, 10% (previous year: 12%) 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 the 2022 fiscal year, the Siemens Bank management also once more allocated €25,000 thousand (previous year: €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 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 2022 fiscal year.

# Results of operations

The 2022 fiscal year saw strong operational performance with an increase in the lending portfolio and higher interest margins, which is reflected in significantly improved net interest income after the moderate growth of the previous year. Nevertheless, additions to allowances for losses on loans and advances were significantly higher than in the previous year, due primarily to provisioning for an exposure in the European energy infrastructure sector that was adversely affected by the Ukraine conflict.

As a result, Siemens Bank was not able to match the positive development of the 2020 and 2021 fiscal years, but achieved by far the highest operating income before allowances for losses on loans and advances since the Bank's formation, despite the challenging developments in connection with the Ukraine crisis.

| (€ million) | 2022 | 2021 | 2020 |
|---|---|---|---|
| Net interest income | 197.3 | 170.7 | 161.8 |
| Net fee and commission income | 33.2 | 29.5 | 31.6 |
| General administration expenses | -87.9 | -78.5 | -71.7 |
| Other income and expenses, net | 2.9 | -1.1 | -2.8 |
| **Operating income before allowances for losses on loans and advances** | **145.3** | **120.5** | **118.9** |
| Allowances for losses on loans and advances | -87.3 | -17.2 | -20.2 |
| **Net operating income** | **58.0** | **103.3** | **98.7** |

Figure 3: Components of Siemens Bank income

**Net interest income** at Siemens Bank is derived 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-related investments in the deposit and treasury business normally generate lower interest margins. As the portfolio in the core lending business grew strongly in the 2022 fiscal year after moderate 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. Overall, Siemens Bank was able to continue to generate attractive risk-return profiles in the lending business. Against the background of increasing risk factors in important core markets, it should be highlighted that new loan transactions were only entered into selectively, and the pursued business strategy is not volume-driven. Since growth in the lending business portfolio in the 2022 fiscal year was stronger than in previous years and net interest margins were successfully increased, the increase in net interest income exceeds Siemens Bank's expectations.

**Net fee and commission income**, which had declined by 7% in the previous year due to a change in the product portfolio, increased by 12% in the 2022 fiscal year, in line with expectations. However, net fee and commission income continues to be of secondary importance for the Siemens Bank earnings position. 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 administration expenses.

**General administration expenses** of Siemens Bank increased slightly, with 54% (previous year: 53%) being 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. Other administration 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 increase in general administration expenses over the last three fiscal years reflects the growth of Siemens Bank 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 administration expenses in the past fiscal year was below the relative increase in net interest income and thus in line with the Bank's expectations. As in the previous year, the increase is primarily due to higher personnel expenses, significantly increased regulatory costs and upfront expenses for the development of EPT as a new business segment.

**Other net operating income** is for the most part characterized by income from currency valuations. The impact of currency effects on the Bank's profitability is limited, especially due to the funding of loans in foreign currencies in the same currency. In the 2022 fiscal year, Siemens Bank reports a moderately positive currency income in relation to the total portfolio; last year, Siemens Bank also reported a slightly positive currency income in relation to the portfolio.

Expenses for additions to **allowances for losses on loans and advances** increased significantly in the 2022 fiscal year compared to the previous year and were thus higher than expected by Siemens Bank at the beginning of the fiscal year. In addition, the volume of problem loans increased overall, as did provisions for defaulting loans. In general, 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, also during the Ukraine crisis and against the background of increased macroeconomic uncertainties. The disproportionate increase in risk provisioning is due in particular to the provisioning for an exposure in the European energy infrastructure sector, which has been adversely affected by the Ukraine crisis. This effect dominates the item allowances for losses on loans and advances and is primarily responsible for the increase compared to previous years. Overall, 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 continued to be very moderate overall in the 2022 fiscal year.

**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 reduction in this performance indicator is below the level expected by Siemens Bank. In addition to the increase in net interest income, this is mainly due to the negative development of risk provisions.

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 the 2022 fiscal year: €41.7 million; previous year: €72.0 million) is considered in relation to the average economic capital, which amounts to €623.5 million in the 2022 fiscal year (previous year: €546.5 million). As of September 30, 2022, this indicator was 6.6% (previous year: 13.2%) and thus below the target range of 12% to 17%, due in particular to the provisioning for an exposure in the European energy infrastructure adversely affected by the Ukraine conflict.

# 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 adopting 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 reflecting 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 within the portfolio, 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, which is supplemented by an IT strategy, a remuneration strategy and a framework for dealing with sustainability risks (ESG Framework), 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 (CRD) 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 implemented a comprehensive risk management system to ensure that the measures aimed at achieving the objectives in the business strategy and risk strategy are properly adhered to. 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. In addition to the IT strategy, these components are also accompanied by the remuneration strategy and the sustainability management concept.

### 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, for 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.

## Separation 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 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 and approved by the Management Board. 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 adopted 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 normative and economic capital management within the framework of internal capital adequacy as well as the defined KPIs in the recovery plan. Risk monitoring comprises activities to quantify and validate the risks adopted by the Bank, activities to monitor the authorized limits, internal capital adequacy and the liquidity risk situation, as well as 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 the CEO, CFO and CRO as well as the head of the EPT 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 is informed of material changes to these methods and approves all such changes.

A key instrument for ascertaining the appropriateness of the risk management system and the corresponding internal control system is the internal audit function, which reports directly to the Management Board. 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. For the operational execution of audits by the internal audit function, audit procedures are outsourced to the Siemens AG group-wide internal audit function. The findings of the audits are summarized in quarterly and annual reports prepared by 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 segments regarding this compliance. Regarding further compliance-relevant internal provisions, such as regulatory questions or implementation of MaRisk, the central function is assisted by Risk Controlling and Regulatory Reporting. Regardless of the superordinate role of the compliance function, the members of the Management Board and the business segments 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, 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, non-material 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 adopted by the Bank and on a detailed portfolio analysis regarding concentration risk adopted 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 net stable funding ratio as well as the minimum liquid assets (for the Singapore Branch).

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 of non-material but quantifiable risks occurs monthly and is embedded in other reports such as the market price 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

Accounting & Controlling 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.

### Procedure

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 Accounting & Controlling. 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 always consistent with the available capital both at the bank-wide 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.

The internal management and limitation of risk at Siemens Bank is based on both the economic perspective and the normative perspective.

The economic perspective 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.

The normative perspective combines the requirements of regulatory capital adequacy and internal capital adequacy with the objective of ensuring regulatory capital adequacy at all times.

Siemens Bank determines its economic risk-taking potential with a present-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 core of the risk-taking potential consists of the regulatory tier 1 and tier 2 capital and is referred to as the core risk-taking potential. The core risk-taking potential is expanded to include hidden reserves and charges from the Siemens Bank portfolio. 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. This applies to both the economic perspective and the normative perspective. If the result is a positive amount, the amount is reduced by a risk buffer and is included as additional risk-taking potential in the internal risk adequacy calculation of the economic perspective. The core risk-taking potential corresponds to the regulatory capital without adjustment for prudential valuation.

As of September 30, 2022, the risk-taking potential of Siemens Bank consisted of the following:

| (€ million) | 2022 | 2021 |
|---|---|---|
| Tier 1 capital | 1,050.0 | 1,025.0 |
| Tier 2 capital | 59.0 | 59.0 |
| Additional risk-taking potential | 395.1 | 528.8 |
| **Total risk-taking potential** | **1,504.1** | **1,612.8** |

Figure 4: Composition of the risk-taking potential

Internal capital adequacy is measured by comparing the internal 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 allocation process 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 non-material risks are quantified separately:

» Business risk in terms of net present value margin risk

The latter risk has an impact on the amount and fluctuation of the additional risk-taking potential and is 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 €54.9 million as expected in the stress case.

As of September 30, 2022, the allocation of the risk-taking potential and the risk capital requirements for the economic perspective are as follows:

| (€ million) | 2022 | | 2021 | |
|---|---|---|---|---|
| Risk-taking potential in stress scenario | **1,449.3** | | **1,564.0** | |
| of which additional risk-taking potential in stress scenario | 340.3 | | 480.0 | |
| of which core risk-taking potential | 1,109.0 | | 1,084.0 | |
| | **Risk-taking potential** | **Required risk capital** | **Risk-taking potential** | **Required risk capital** |
| Risk capital for operational risk | 35.0 | 29.0 | 30.0 | 27.0 |
| Risk capital for default risk | 700.0 | 527.4 | 700.0 | 500.9 |
| Risk capital for market risk | 50.0 | 34.5 | 30.0 | 7.4 |
| Risk capital for refinancing risk | 40.0 | 16.8 | 40.0 | 15.8 |
| **Normal case** | **825.0** | **607.7** | **800.0** | **551.2** |
| Risk capital for operational risk | | 30.3 | | 29.0 |
| Risk capital for default risk | | 778.0 | | 740.1 |
| Risk capital for market risk | | 51.7 | | 11.1 |
| Risk capital for refinancing risk | | 41.3 | | 44.6 |
| Risk capital for business risk | | 275.2 | | 156.7 |
| Risk capital for prepayment risk | | | | 9.2 |
| Buffer for other non-material risks | | 40.0 | | 20.0 |
| **Stress case total** | **1,449.3** | **1,216.5** | **1,564.0** | **1,010.9** |

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

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 non-material 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. Operational risk is quantified using the basic indicator approach in accordance with CRR II. Starting with the 2021/2022 fiscal year, prepayment risk is no longer considered within the internal capital adequacy, as, in total, economic losses due to the early termination of loan agreements no longer occur, and the early termination of refinancing agreements is no longer necessary due to improved operational management.

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 II capital and liquidity requirements.

Other risk types currently classified by the Bank as non-material – 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 €1,010.9 million to €1,216.5 million during the fiscal year, while the risk-taking potential under stress decreased by €114.7 million. The highest utilization of risk-taking potential in the stress scenario was at the end of the third quarter of the fiscal year. Internal capital adequacy was ensured at all times during the fiscal year.

Against the backdrop of market movements in the interest rate, FX and refinancing environment, the Management Board takes a critical view of the risk development, is, however satisfied overall with the development of internal capital adequacy in the past fiscal year. In particular, the risk capital requirement for credit risk increased at a slightly slower pace than growth in the lending portfolio, and the other impacts from geopolitical changes, supply chain disruptions and market price fluctuations on internal capital adequacy remain manageable.

For the 2023 fiscal year, 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.

| (€ million) | 2022 | 2021 |
|---|---|---|
| **Normative risk-taking potential** | **1,093.3** | **1,084.0** |
| Tier 1 capital | 1,034.3 | 1,025.0 |
| Tier 2 capital | 59.0 | 59.0 |
| | | |
| Risk capital for operational risk | 39.1 | 36.4 |
| Risk capital for default risk | 901.4 | 816.1 |
| Risk capital for market risk | 0.0 | 2.8 |
| Risk capital for refinancing risk | 16.8 | 15.8 |
| **Normative total** | **957.3** | **871.0** |

Figure 6: Risk-taking potential and capital requirements by risk type in the normative perspective

The risk-taking potential in the normative perspective corresponds to the regulatory capital without adjustment for prudential valuation, similar to the core risk-taking potential of the economic perspective.

When determining the normative capital requirement in the “base case”, Siemens Bank does not assume that there will be any diversification effect between the individual risk types. All major risk types are taken into account, with the exception of liquidity risk (in the sense of a risk of insolvency), as this, as in the economic perspective, is not possible in a meaningful way. The capital requirements for default risk, market risk and operational risk are determined using the regulatory approaches. Capital requirements for funding risk follow the economic perspective approach. Other risks are not taken into account. The utilization of the risk-taking potential in the normative “base case” increased from €871.0 million to €957.3 million in the course of the fiscal year. The highest utilization of risk-taking potential was at the end of the fiscal year. Internal capital adequacy was ensured at all times.

In the “adverse case”, corresponding adverse assumptions are made to reflect the development of the individual risk types and to reduce the available risk-taking potential. Even in the “adverse case”, internal capital adequacy was ensured at all times during the entire fiscal year.

## 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 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. For the economic perspective, this is done in the stress case, and for the normative perspective in the “adverse case”.

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

The most significant risk in the economic perspective as well as in the normative perspective is default risk, which is also the main driver behind the increased risk-taking potential utilization in the stress case and the “adverse case” respectively. 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 II.

As of September 30, 2022, the composition of regulatory capital at Siemens Bank was as follows:

| (€ million) | 2022 | 2021 |
|---|---|---|
| **Tier 1 Capital** | | |
| Paid-up capital instruments | 5.0 | 5.0 |
| Adjustments due to the requirements for prudent valuation | -15.7 | -2.7 |
| Capital reserves and other eligible reserves | 1,045.0 | 1,045.0 |
| | **1,034.3** | **1,047.3** |
| **Tier 2 Capital** | | |
| Total tier 2 capital before capital adjustment items pursuant to section 62 et seqq. CRR | 59.0 | 59.0 |
| Adjustment items for tier 2 capital pursuant to section 66 et seqq. CRR | 0.0 | 0.0 |
| | **59.0** | **59.0** |
| **Total modified available capital pursuant to section 10 (1d) KWG** | **1,093.3** | **1,106.3** |

Figure 7: Composition of regulatory capital according to the final financial statements as of September 30, 2022 (previous year according to approved financial statements)

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) | 2022 | 2021 |
|---|---|---|
| **1. Default risk** | | |
| Standardized credit risk approach | | |
| Central governments | 0.0 | 0.0 |
| Institutions | 0.5 | 0.4 |
| Corporates | 649.6 | 585.3 |
| Items with particularly high risk | 8.9 | 15.1 |
| Other | 8.8 | 6.0 |
| Overdues | 0.3 | 0.3 |
| **Sum of default risk** | **668.0** | **607.1** |
| **2. Market risk** | | |
| Standardized approach | 0.0 | 1.8 |
| - of which: currency risks | 0.0 | 1.8 |
| **Sum of market risk** | **0.0** | **1.8** |
| **3. Operational risk** | | |
| Basic indicator approach | 29.0 | 29.0 |
| **Sum of operational risk** | **29.0** | **29.0** |
| **Total capital requirements** | **697.0** | **637.9** |

Figure 8: Regulatory capital requirements as of September 30, 2022 (previous year according to approved financial statements)

Siemens Bank must ensure a total capital ratio of 10.8% according to CRR II 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, 2022, the total capital ratio (Pillar I) for Siemens Bank was 12.55% according to the final financial statements (previous year: 13.87% 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 11.87% according to the final financial statements (previous year: 13.14% according to the approved financial statements). Both ratios are therefore higher than the capital ratios specified by the regulatory requirements.

The difference between the required regulatory capital of €697.0 million (previous year: €637.9 million according to the approved financial statements) and the required economic risk capital in the normal scenario of €607.7 million (previous year: €551.2 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, 2022, 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 for 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 administration 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 is recognized. 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, 2022, Siemens Bank had total recognized specific and general loan loss provisions of €161.0 million (previous year: €76.9 million). 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 disproportionate increase in risk provisioning is due in particular to the provisioning for an exposure in the European energy infrastructure sector, which has been adversely affected by the Ukraine crisis. This effect dominates the item allowances for losses on loans and advances and is primarily responsible for the increase compared to previous years. The provisions for latent credit risks increased only slightly, as significant additions were already made in the previous fiscal year.

## 2.3.5 Analysis of the lending portfolio as of September 30, 2022

The required economic capital for default risk as of September 30, 2022, was €527.4 million (previous year: €500.09 million). This capital requirement was contrasted by an allocated risk-taking potential of €700.0 million. The required normative capital for default risk as of September 30, 2022, is €901.4 million (previous year: €816.1 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 mainly due to increased credit exposure and the deteriorating credit environment in the second half of the year. However, the latter had only a minor impact on capital requirements, as most of the portfolio has proven to be very resilient to impacts from the Ukraine crisis, the effects on the energy sector and the deterioration of supply chains.

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

As of September 30, 2022, 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 €8,179.3 million (previous year: €7,432.7 million), of which €7,549.7 million (previous year: €6,908.3 million) was attributable to project financing and corporate and €629.6 million (previous year: €524.4 million) to public-sector borrowers. The focus continues to be on the sectors renewable energy, manufacturing and healthcare. In the past fiscal year, the effects of the deterioration in global supply chains and of the Ukraine crisis had a greater impact on project financing in the construction phase, where scheduled construction times were exceeded in isolated cases. Corporate financing, on the other hand, is more affected by the deterioration of growth prospects in Europe and Asia, but has proven resilient in the past year.

A breakdown of the Siemens Bank lending portfolio by credit rating as of September 30, 2022, is shown in the following table.

| (€ million) | 2022 | 2021 |
|---|---|---|
| **Rating category** | **Out-standing** | **Out-standing** |
| Investment grade | 2,593.4 | 2,358.4 |
| Non-investment grade | 5,585.8 | 5,074.3 |
| of which exposures with high likelihood of default | 179.9 | 35.8 |
| of which defaulted exposures | 86.4 | 99.0 |
| **Total** | **8,179.3** | **7,432.7** |

Figure 9: Lending portfolio by rating category

As of September 30, 2022, the investment-grade exposure (rating 1 through rating 5+) totaled €2,593.4 million (previous year: €2,358.4 million) and the non-investment-grade exposure (rating 5- through rating 10) totaled €5,585.8 million (previous year: €5,074.3 million). There was a total of €179.9 million of credit exposure with a high likelihood of default (rating 9) as of September 30, 2022 (previous year: €35.8 million). Exposure to default in the lending portfolio (rating 10) was €86.4 million (previous year: €99.0 million). Non-collateralized loans are in general only granted to customers with an investment-grade rating. The increase in exposures at risk of default is also due in particular to an exposure in the European energy infrastructure sector, which is particularly affected by the Ukraine crisis. These exposures at risk of default and defaulted exposures are already covered to a significant extent by specific loan loss provisions.

The breakdown of the lending portfolio by geographical area (based on the country of risk) as of September 30, 2022 highlights the Bank's business strategy of focusing on customers in Europe, Asia and Australia.

| (€ million) | 2022 | 2021 |
|---|---|---|
| | Out-standing | Out-standing |
| Eurozone | 2,847.0 | 2,478.3 |
| Europe excluding eurozone | 2,577.5 | 2,630.1 |
| Asia | 1,865.0 | 1,587.4 |
| Australia/Oceania | 660.3 | 548.3 |
| America | 200.3 | 159.4 |
| Africa | 29.1 | 29.2 |
| **Total** | **8,179.3** | **7,432.7** |

Figure 10: Breakdown of lending portfolio by geographical area

Country group "Europe excluding eurozone" is mainly attributable to the United Kingdom (previous year: "Europe excluding EU").

# 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 liquidity coverage ratio, net stable funding ratio and minimum liquid assets (for the Singapore Branch) are 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.

### 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 short-term 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 must be informed without delay and action must 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 must be informed without delay and action must 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.

The liquidity ratios LCR and NSFR are also monitored daily and compared to the triggers derived from the recovery plan.

## 2.4.2 Modeling

### Modeling

In order to ensure that 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.

### 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). 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, 2022

The liquidity gap profile comprising deterministic, optional and modeled cash flows shows negative cumulative cash flows in 1.25-year to 4-year time brackets as of September 30, 2022. 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, deposits with central banks and other high-quality liquid assets. As of September 30, 2022, this buffer amounts to €2,792.6 million (previous year: €1,306.3 million), a significant increase caused by short-term investments of Siemens AG, which were deposited with the central bank. The expected survival horizon is infinite. The business contingency plan fully covered the potential liquidity gaps.

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, 2022, a liquidity value at risk of €16.8 million (previous year: €15.8 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 €40.0 million. The liquidity value at risk remains largely unchanged in comparison to the previous year.

## 2.5 Market risk

Siemens Bank understands market risk as a 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. Derivatives are currently only allowed in order to reduce risk and not as a means of creating 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 income statement on a daily basis. If a limit is exceeded, the ALM Committee must 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 five 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, 2022

As of September 30, 2022, the required economic capital for market risk was €34.5 million (previous year: €7.4 million). As of September 30, 2022, the required normative capital for market risk was €0.0 million (previous year: €2.8 million). Economic capital requirement rose very significantly compared to the end of last year due to a very sharp increase in market volatilities and was even higher in some cases during the course of the year following the measures taken by the central banks. This was due to the Ukraine crisis and the associated price increases and uncertainties in the market. The main part of this originates from the changes in the interest rate market and the increased interest rates in EUR, GBP and USD. Economic capital requirements were contrasted by an allocated risk-taking potential of €50.0 million.

# 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 and coordinates 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 II in order to measure and cover the regulatory capital requirement for operational risk.

To measure the required economic capital, Siemens Bank compares the amount determined for regulatory purposes under the BIA with the available risk-taking potential. 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, 2022

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, 2022 was €29.0 million (previous year: €27.0 million). The required capital is based on the regulatory calculation specified in the CRR II and is adjusted yearly by the Management Board based on the final financial statements. This capital requirement was contrasted by an allocated risk-taking potential of €35.0 million.

In the past fiscal year, most employees continued to work from home and remotely. As in the previous year, there was no substantial absence of personnel and no substantial failure of infrastructure or IT systems, so that business operations were not significantly restricted.

## 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 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 increased significantly from €156.7 million to €275.2 million. The change was mainly due to higher 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.

In the 2022 fiscal year, as in the previous year, Siemens Bank was involved in a large number of Siemens AG's Group-wide programs and initiatives, and supplemented these with own projects due to their great relevance for the Bank:

» 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;

» ESG - ("Environmental", "Social", "Governance"): Key stakeholders (including shareholders, employees, business partners, the public, regulators) are increasingly expecting banks to handle Environmental, Social and Governance (ESG) Risks responsibly. In this context, the Siemens Bank Credit Policy defines Sustainability Risks as "environmental, social or governance events or conditions which, if they occur, have or may potentially have significant negative impact on Obligors or transactions (and insofar on credit risk or transaction risk), or on reputation of the Bank".

  The Bank's ESG Framework (which has been in place since February 2020) governs the assessment of ESG aspects in further detail. Key elements are:

  » Identification of new business opportunities requiring an advanced Sustainability Assessment

  » Definition of business areas of no tolerance where no new business shall be allowed

  » Guiding considerations for assessing and opining on Sustainability Risk

  Siemens Bank is actively enhancing its business in the Sustainable Finance area (e.g., by maintaining a strong presence in Renewable Energy and Rolling Stock Finance; by making inroads into further areas of clean technologies in the field of E-Mobility).

» Diversity, Equity and Inclusion: Siemens Bank believes that a diverse and inclusive corporate culture has a positive effect on its attractiveness as an employer and therefore, indirectly, on its competitiveness. Siemens Bank has therefore launched an initiative to improve diversity, equality and inclusion with the broad participation of employees, with the aim of integrating different ways of thinking, backgrounds, experiences and individual qualities, and supporting employees in different life and work situations in reconciling professional and private challenges. This initiative is driven by several sub-projects that specialize in different topics. For example, in a sub-project on data, KPIs and strategy, a dashboard is being created that quantifies the current situation with regard to the ratio of men and women at staff and management levels. Other projects deal with the introduction of an inclusive recruitment process and subsequent staff development. Further activities include the establishment of an internal mentoring network and the provision of training to promote a corporate culture that values diverse opinions, ideas and open communication, initiatives to promote work-life balance, for example through tax-free childcare subsidies and childcare places linked to employment contracts.

As in the previous year, no non-financial performance indicators were used during the 2022 fiscal year to manage the business.

An extremely important factor in Siemens Bank's business performance was the re-confirmation of its credit rating by Moody's credit rating agency in September 2022. 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

The global economy will continue to weaken significantly in 2023 and is expected to grow by +1.4% (IHS Markit). This growth will be generated mainly by countries in the Asia-Pacific region, whereas growth in Europe and the American subcontinent will lag significantly behind the global forecast. Specifically, in 2023, negative real GDP growth of -0.7% and -0.5% is expected in the United Kingdom and the U.S. respectively. The projected -0.6% slump in growth in the eurozone next year is accompanied by fiscal policy risks, as increased budget deficits and debt levels from the pandemic cannot be reduced due to new necessary spending in the energy crisis. Emerging economies with high levels of foreign-currency-denominated debt are also confronted with a tight fiscal policy framework. Exchange rate risks as a result of a strong U.S. dollar and increased interest rates are narrowing the scope for financing. The projected growth in commodity-exporting countries may exceed the global growth rate. Economic growth in 2023 in the Middle East will average +3.3%. Even higher economic growth in the coming year is forecast to be achieved in the Asia-Pacific region, with +3.7% after +3.3% in the previous year. The development is mainly influenced by the recovery in China; however, the projected growth of +4.4% in 2023 remains below the growth path of the past. The growth of the economy in India will slow down to +5.3% in 2023. Here, as in other countries of this economic region, economic development is influenced by falling export demand from industrialized countries and declining private consumption. [all figures from IHS Markit]

Growth in most leading economies continues to be held back by the general tightening of monetary policy to combat inflation. Lower business and consumer sentiment indicators, high prices for some energy products and shrinking real disposable incomes of households have a negative impact on business investment and private consumption. Against the backdrop of the global economic turnaround this indicates, consumer price inflation will gradually slow down. However, with projected levels of +5.1% globally, +7.6% in Europe and +4.1% (IHS Markit) in North America in 2023, consumer price inflation will still remain well above the central banks' target levels. Supply bottlenecks and logistical problems, especially in maritime transport, have eased in recent months and are likely to have less of a price-driving effect than in the past.

There are significant risks with regard to growth and inflation expectations. Further interest rate increases by central banks are expected worldwide in order to permanently contain inflationary pressures. In the United States, key interest rates may rise to 5% next year. Due to the staggered impact of monetary policy on the real economy, this increase carries the risk that adjustment may be too rapid and interest rate levels may be too high, possibly triggering a further economic downturn with negative effects on the global economy. A key risk is a potential gas shortage in Europe in the coming months if supplementary EU energy imports from non-Russian sources are lower than expected or if a cold winter brings unusually high gas demand. A restriction of the gas supply would affect various sectors of the manufacturing industry and metal production. A gas shortage in Europe would also have a global impact on prices and supply in other countries. Siemens Bank continuously monitors this risk with the help of a gas heat map. The planned Western oil embargo against Russia may lead to further distortions in the global oil market and may have a negative impact on global growth and the further development of inflation. In the positive case, on the other hand, a quick and sustainable solution to the energy crisis in Europe could lead to a significant expansion of economic activity. Other significant risks arise from the uncertain development of food prices in the face of increasing extreme weather events and the possibility that the growth path in China may be flattening in the long term. Additional exogenous shocks come from further COVID-19 waves and associated lockdowns, as well as geopolitical tensions, such as in the South China Sea, or trade disputes, such as between the U.S. and China. Scenarios of an escalation or expansion of the war in Ukraine combined with acts of sabotage on critical infrastructure in countries of the European Union are not considered in the outlook.

## Opportunities and risks in the 2023 fiscal year

Siemens Bank shares the expectation that economic development in the 2023 fiscal year will be strongly influenced by the impact of the Ukraine conflict. Based on the cited forecasts, Siemens Bank expects a scenario in which the global economy will be facing many risks and uncertainties in the coming fiscal year, whereby there may be significant industry-specific and regional differences.

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 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. In the Asia and Australia region, the Bank expects further growth in its business activities. This also applies to the Middle East if political risks are strictly managed. Siemens Bank continues to build on the consistent focus of the lending business on attractive risk-return profiles and on the income from a well-diversified lending portfolio, which has proven resilient during the COVID-19 pandemic and, up to now, also in the context of the geopolitical and macroeconomic challenges as a result of the Ukraine crisis. Siemens Bank continues to expect positive development impulses from the strategic realignment of the Siemens Group and the associated development of new products and markets, such as the new business segment Extended Payment Terms. 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.

Nevertheless, many elements of uncertainty and risk remain, which Siemens Bank believes may lead to negative deviations from the current forecasts. In particular, a further intensification of geopolitical and macroeconomic risks as a result of the Ukraine conflict, the energy crisis as well as sharply rising inflation and disrupted supply chains may continue to have a significant impact on the global economy. This could result in a further weakening. Such a scenario would have a significant impact on the growth and profitability of companies and may lead to credit defaults in the overall market, from which Siemens Bank would not be able to disengage itself.

In addition to the special risks of the Ukraine crisis, Siemens Bank is monitoring a number of other risks that may have adverse effects on the Bank's future development. In particular, supply shortages of key electronic primary products and delays in global trade may continue to negatively impact economic growth next year. In Europe, the consequences of the United Kingdom's exit from the EU, restrictions due to the disruption of supply chains and a rapidly rising trend in energy and electricity prices can be observed.

In addition, a potential escalation of tensions between China and Taiwan, as well as possible trade disputes and sanctions by Western countries against China, pose an economic risk, both for export-oriented economies in Europe and for Asian economies.

Political and economic development in Turkey and the Middle East may have an 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 summary, it is to be stated that the multitude of geopolitical and macroeconomic risk factors described above naturally also pose a special challenge for Siemens Bank. Economic problems among borrowers may have a negative impact on allowances for losses on loans and advances and may lead to defaults in the lending portfolio. However, due to its broad diversification by sectors and regions and its consistent and comprehensive risk management system, Siemens Bank believes that it is well prepared for the ongoing challenges. Siemens Bank intends to at least partially compensate for declining or negative effects and uncertainties in individual markets and parts of the lending portfolio by positive effects in other markets and parts of the lending portfolio.

## Business performance of Siemens Bank in fiscal 2023

After a 2022 fiscal year which, despite the effects of the Ukraine conflict, was successful overall, Siemens Bank expects its lending portfolio to continue to grow moderately in the 2023 fiscal year, whereby profitability will be impacted significantly by the further macroeconomic developments.

For the coming 2023 fiscal year, Siemens Bank expects the liquidity investments included in loans and advances to banks and customers to remain on a similar level, while investments with central banks and, associated with this, the short-term deposits of Siemens AG and its subsidiaries will tend to decline to the level of the previous years. 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 continued moderate growth and higher interest margins in the 2023 fiscal year and, associated with this, a corresponding development in the growth of net interest income. The Bank plans to replace expiring business, which in part still operated with lower margins, by consistently focusing on attractive risk-return profiles and active portfolio management, thus, as in the 2022 fiscal year, countering the uncertainties observed in the market. In addition, Siemens Bank will actively expand the new business segment Extended Payment Terms and generate additional interest income through this, although the contribution to the balance sheet and interest income will still be very low / of minor importance in the 2023 fiscal year. Siemens Bank expects that its funding in the 2023 fiscal year will continue to be provided largely by Siemens AG and its subsidiaries. Overall, Siemens Bank expects net interest income to grow slightly in the 2023 fiscal year.

Siemens Bank is not planning any material changes to the risk management services for Siemens AG and its subsidiaries in the 2023 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.

General administration 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. Secondly, general administration 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 administration expenses for the 2023 fiscal year through strict cost discipline. Thus, this part of general administration expenses is expected to essentially grow only as a result of general price developments, which are, however, higher than in previous years due to higher inflation and increased salary expectations, adjustment of the resource base to the increased business volume as well as investments in new products. Accordingly, the establishment and further expansion of a new business segment will also be reflected in the general administration expenses of the coming fiscal year. Siemens Bank does not expect any significant changes in the fee business. Siemens Bank therefore expects general administration expenses, in line with the trend in previous years, to continue to increase moderately overall, though more than the average of previous years.

Even though Siemens Bank will continue to only selectively enter into credit risk and does not intend to compensate for the continuing margin pressure in parts of the markets by assuming excessive risks, the Bank expects that, due to the current geopolitical and macroeconomic challenges, allowances for losses on loans and advances in the coming fiscal year will be above the normalized level of previous years (i.e., without the significant impact of the exposure in the European energy infrastructure sector). Due to the risk structure of the portfolio, this development may be strongly affected by individual exposures, as was the case in the past fiscal year. This has already proven to be the case in an event after the balance sheet date, which made it necessary to significantly increase allowances for an exposure.

Overall, Siemens Bank expects a challenging 2023 fiscal year, but with a significantly improved net operating income before additions to the fund for general banking risks and before tax, which, in 2022, was influenced by the special effect mentioned above. Continued strong net interest income should compensate for the increase in general administration expenses and necessary allocations to allowances for losses on loans and advances to the extent that a significant improvement in income will be achieved, approaching the income level of the previous years.

Due to the challenges, Siemens Bank expects to once more draw nearer to the set target range for the return on risk-adjusted capital in the 2023 fiscal year, however, without being able to achieve them yet. However, the Bank expects to be able to once again reach the target range in the following years. With regard to both performance indicators – net operating income before tax and RORAC – the greatest uncertainty lies in the development of loan loss provisions and the further development of geopolitical and macroeconomic risk factors.

# Annual financial statements

# Income statement

of Siemens Bank GmbH, Munich,
for the fiscal year from October 1, 2021
to September 30, 2022 (€'000)

| | | Notes to the financial statements | | 2022 | 2021 |
|---|---|---|---|---|---|
| 1 | Interest income from | 1 | | | |
| | a) Lending and money market business | | 257,681 | | 205,321 |
| | of which: negative interest income €4,178 thousand (previous year: €9,222 thousand) | | | | |
| | b) Fixed-income securities and registered debt | | 2,454 | | 1,351 |
| | **of which: negative interest income €621 thousand (previous year: €969 thousand)** | | | | |
| | | | | **260,135** | **206,672** |
| 2 | **Interest expense** | 1 | | **-62,878** | **-35,966** |
| | of which: positive interest expenses €9,253 thousand (previous year: €12,543 thousand) | | | | |
| 3 | **Fee and commission income** | 1, 2 | | **33,379** | **29,678** |
| 4 | **Fee and commission expense** | | | **-216** | **-220** |
| 5 | **Other operating income** | 1, 3 | | **3,312** | **1,646** |
| 6 | **General administration expenses** | | | | |
| | a) Personnel expenses | | | | |
| | aa) Wages and salaries | | -39,326 | | -36,656 |
| | ab) Social security and expenses for pension and support obligations | | -8,673 | | -5,155 |
| | of which: in respect of pensions €-4,950 thousand (previous year: €-3,065 thousand) | | | -47,999 | -41,811 |
| | b) Other administrative expenses | | | -39,951 | -36,736 |
| | | | | **-87,950** | **-78,547** |
| 7 | **Depreciation and write-downs on intangible assets and property and equipment** | | | **-269** | **-222** |
| 8 | **Other operating expenses** | 3 | | **-188** | **-2,558** |
| 9 | **Write-downs of receivables and certain securities and additions to provisions in the lending business** | | | **-87,304** | **-17,184** |
| 10 | **Expenses from additions to the fund for general banking risks** | | | **-25,000** | **-25,000** |
| **11** | **Income from ordinary operations** | | | **33,021** | **78,299** |
| 12 | **Taxes on income** | 4 | | **-11,748** | **-12,217** |
| | of which: deferred taxes €30 thousand (previous year: €40 thousand) | | | | |
| 13 | **Other taxes, if not included under item 8** | | | -169 | -27 |
| 14 | **Profit transferred under a profit-and-loss transfer agreement** | 5 | | **-21,104** | **-66,055** |
| 15 | **Annual net profit** | | | 0 | 0 |
| **16** | **Distributable profit** | | | **0** | **0** |

# Balance sheet

## as of September 30, 2022 (€'000) of Siemens Bank GmbH, Munich

| | Assets | Notes to the financial statements | | 2022 | 2021 |
|---|---|---|---|---|---|
| 1 | **Cash** | | | | |
| | Credit balance with central banks | | 41,818 | | 237,482 |
| | of which with Deutsche Bundesbank €41,461 thousand (previous year: €237,165 thousand) | | | | |
| | | | | **41,818** | **237,482** |
| 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 of which refinanceable at Deutsche Bundesbank €0 thousand (previous year: €0 thousand) | | 81,067 | | 73,490 |
| | | | | **81,067** | **73,490** |
| 3 | **Loans and advances to banks** | 7 | | | |
| | a) Sight deposits | | 31,953 | | 23,930 |
| | b) Other receivables | | 2,019,042 | | 371,995 |
| | | | | **2,050,995** | **395,925** |
| 4 | **Loans and advances to customers** | 8 | | **7,944,245** | **7,289,078** |
| | including secured by liens €0 thousand (previous year: €0 thousand)<br>including municipal loans €630,123 thousand (previous year: €524,341 thousand) | | | | |
| 5 | **Bonds and other fixed-income securities** | 9 | | | |
| | Commercial paper and bonds from other issuers<br>of which eligible as collateral with Deutsche Bundesbank €0 thousand (previous year: €0 thousand) | | 41,314 | | 34,771 |
| | | | | **41,314** | **34,771** |
| 6 | **Trust assets** | 10 | | **0** | **397,498** |
| | of which trust loans €0 thousand (previous year: €397,498 thousand) | | | | |
| 7 | **Intangible assets** | | | | |
| | Goodwill | 11 | | 1,291 | 1,403 |
| 8 | **Property and equipment** | 12 | | **70** | **76** |
| 9 | **Other assets** | 13 | | **4,136** | **3,588** |
| 10 | **Prepaid expenses and deferred income** | 14 | | **2,435** | **2,766** |
| | **Total assets** | 21 | | **10,167,371** | **8,436,077** |

| Liabilities | | Notes to the financial statements | | 2022 | 2021 |
|---|---|---|---|---|---|
| 1 | **Amounts due to banks** | **15** | | | |
| | a) Sight deposits | | 0 | | 152 |
| | b) With agreed maturities or notice period | | 26,932 | | 23,320 |
| | | | | **26,932** | **23,472** |
| 2 | **Amounts due to customers** | **16** | | | |
| | Other amounts due | | | | |
| | a) Sight deposits | | 6,089 | | 8,012 |
| | b) With agreed maturities or notice period | | 8,943,226 | | 6,806,876 |
| | | | | **8,949,315** | **6,814,888** |
| 3 | **Trust liabilities** | **10** | | **0** | **397,498** |
| | of which trust loans €0 thousand (previous year: €397,498 thousand) | | | | |
| 4 | **Other liabilities** | **17** | | **28,331** | **73,021** |
| 5 | **Prepaid expenses and deferred income** | **14** | | **46,840** | **40,764** |
| 6 | **Deferred tax liabilities** | | | **66** | **36** |
| 7 | **Provisions** | **18, 19** | | | |
| | a) Provisions for pensions and similar obligations | | 19,723 | | 16,093 |
| | b) Provisions for taxes | | 4,854 | | 4,295 |
| | c) Other provisions | | 16,310 | | 16,010 |
| | | | | **40,887** | **36,398** |
| 8 | **Fund for general banking risks** | | | **75,000** | **50,000** |
| 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** | | **10,167,371** | **8,436,077** |
| 1 | **Contingent liabilities** | **22** | | | |
| | Liabilities under guarantees and warranty agreements | | | 89,498 | 74,663 |
| 2 | **Other obligations** | **22** | | | |
| | Irrevocable loan commitments | | | 1,745,103 | 1,543,610 |

# Notes to the financial statements

of Siemens Bank GmbH, Munich, for the fiscal year from October 1, 2021 to September 30, 2022

## 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, 2022, 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. To improve clarity, amounts are presented 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 sum indicated.

## Accounting policies

### 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.

### 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 the 2022 fiscal year also takes into account the impact of the COVID-19 pandemic and of the Ukraine conflict. 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.

## 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. Interest receivables from bonds and other fixed-income securities are recognized under bonds and other fixed-income securities, in accordance with section 11 RechKredV.

## 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.

## Property, plant and equipment

Property, plant and equipment is measured at cost and reduced by depreciation on a straight-line basis over the estimated useful life. 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 amounts due to banks or 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 shown separately in the balance sheet, a surplus of deferred tax assets is not presented.

## Provisions for pensions

Payment obligations from pension commitments are measured on the basis of biometric probabilities at the settlement amount determined using the actuarial projected unit credit method. Expected 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, 2022, 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. Should the relevant assets of the pension fund (or the Pensionskasse or Unterstützungskasse) fail to cover the settlement amount for the associated pension commitments, Siemens Bank would present the shortfall 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 administration 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 of obligations, 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 administration 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, 2022 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 mean spot exchange 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 provided 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.

Fair values are determined for all derivative financial instruments. 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 of 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 % | 2022 | 2021 |
|---|---|---|
| **Germany** | **12** | **11** |
| **Elsewhere** | **88** | **89** |
| of which EMEA region (Europe, Middle East, Africa) | 61 | 63 |
| of which AA region (Asia and Australia) | 27 | 26 |

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) | 2022 | 2021 |
|---|---|---|
| Risk management and processing services for affiliated companies | 26,035 | 25,078 |
| Risk management services and credit business services for third parties | 7,344 | 4,600 |
| **Total** | **33,379** | **29,678** |

## 3 Other operating income and expenses

Other operating income mainly includes the €3,121 thousand profit from currency translation (previous year: profit from currency translation of €1,291 thousand).

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 €413 thousand (previous year: €2,332 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 tax 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, apart from foreign withholding taxes, payments and additions to provisions for current income taxes (€201 thousand of which 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 €156 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, 2022, 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, 2022, 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 in the amount of €66 thousand.

As of September 30, 2022, there is a surplus of deferred tax assets for the head office, which is transferred to the controlling company Siemens AG.

The valuation of deferred taxes is based on a tax rate of 25.0% in the United Kingdom and 17.0% 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 €21,104,082.51, 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) | 2022 | 2021 |
| --- | --- | --- |
| **Loans and advances to banks with maturities of** | **2,019,000** | **395,930** |
| (excluding loan loss allowances and interest accruals) | | |
| up to and including 3 months | 2,019,000 | 395,930 |
| 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 |

Loans and advances to banks include, in particular, deposits with central banks in the amount of €2,019,000 thousand.

## 8 Loans and advances to customers

| (€'000) | 2022 | 2021 |
| --- | --- | --- |
| **Loans and advances to customers with maturities of** | **8,123,823** | **7,397,324** |
| (excluding loan loss allowances and interest accruals) | | |
| up to and including 3 months | 112,483 | 193,626 |
| more than 3 months and up to 1 year | 409,390 | 491,347 |
| more than 1 year and up to 5 years | 3,107,087 | 2,767,588 |
| more than 5 years | 4,494,863 | 3,944,763 |

Loans and advances to customers include loans and advances to affiliated companies with a value of €109,487 thousand (previous year: €119,248 thousand). This item does not include any receivables from the shareholder (previous year: €548 thousand).

## 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

In the previous year, trust assets and liabilities comprised 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 2022 fiscal year were as follows:

| (€'000) | Cost | | | | |
|---|---|---|---|---|---|
| | Oct. 1, 2021 | Additions | Transfers | Disposals | Sep. 30, 2022 |
| **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, 2021 | Sep. 30, 2022 | Current year | of which disposals | 2022 | 2021 |
| **Intangible assets** | **-280** | **-392** | **-112** | **0** | **1,291** | **1,403** |
| Goodwill | -280 | -392 | -112 | 0 | 1,291 | 1,403 |

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

| (€'000) | Cost | | | | |
|---|---|---|---|---|---|
| | Oct. 1, 2020 | Additions | Transfers | Disposals | Sep. 30, 2021 |
| **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, 2020 | Sep. 30, 2021 | Current year | of which disposals | 2021 | 2020 |
| **Intangible assets** | **-168** | **-280** | **-112** | **0** | **1,403** | **1,515** |
| Goodwill | -168 | -280 | -112 | 0 | 1,403 | 1,515 |

## 12 Fixed assets

The changes in fixed assets over the 2022 fiscal year were as follows:

| (€'000) | Cost | | | | |
|---|---|---|---|---|---|
| | Oct. 1, 2021 | Additions | Transfers | Disposals | Sep. 30, 2022 |
| **Property and equipment** | **321** | **146** | **2** | **-178** | **291** |
| Office furniture and equipment | 321 | 146 | 2 | -178 | 291 |

| (€'000) | Depreciation and value adjustments | | | | Carrying amount | |
|---|---|---|---|---|---|---|
| | Oct. 1, 2021 | Sep. 30, 2022 | Current year | of which disposals | 2022 | 2021 |
| **Property and equipment** | **-245** | **-221** | **-153** | **177** | **70** | **76** |
| Office furniture and equipment | -245 | -221 | -153 | 177 | 70 | 76 |

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

| (€'000) | Cost | | | | |
|---|---|---|---|---|---|
| | Oct. 1, 2020 | Additions | Transfers | Disposals | Sep. 30, 2021 |
| **Property and equipment** | **304** | **117** | **-30** | **-71** | **321** |
| Office furniture and equipment | 304 | 117 | -30 | -71 | 321 |

| (€'000) | Depreciation and value adjustments | | | | Carrying amount | |
|---|---|---|---|---|---|---|
| | Oct. 1, 2020 | Sep. 30, 2021 | Current year | of which disposals | 2021 | 2020 |
| **Property and equipment** | **-215** | **-245** | **-101** | **71** | **76** | **90** |
| Office furniture and equipment | -215 | -245 | -101 | 71 | 76 | 90 |

Fixed assets are 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 €3,672 thousand (previous year: €3,049 thousand) and receivables arising from taxes on income amounting to €65 thousand (previous year: €68 thousand).

## 14 Prepaid expenses or deferred income

| (€'000) | 2022 | 2021 |
|---|---|---|
| **Prepaid expenses** | **2,435** | **2,766** |
| Premium on loans and advances | 705 | 1,240 |
| Other deferred income | 1,730 | 1,526 |
| **Deferred income** | **46,840** | **40,764** |
| Discount on loans and advances | 8,893 | 10,773 |
| Other deferred income | 37,946 | 29,991 |

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

## 15 Amounts due to banks

| (€'000) | 2022 | 2021 |
|---|---|---|
| **Amounts due to banks** | **26,931** | **23,320** |
| (excluding interest accruals) | | |
| up to and including 3 months | 410 | 129 |
| more than 3 months and up to 1 year | 1,230 | 1,230 |
| more than 1 year and up to 5 years | 7,748 | 6,559 |
| more than 5 years | 17,543 | 15,402 |

## 16 Amounts due to customers

| (€'000) | 2022 | 2021 |
|---|---|---|
| **Amounts due to customers with maturities of** | **8,923,675** | **6,801,326** |
| (excluding interest accruals) | | |
| up to and including 3 months | 2,837,911 | 1,116,697 |
| more than 3 months and up to 1 year | 1,865,111 | 1,628,252 |
| more than 1 year and up to 5 years | 3,363,951 | 3,197,384 |
| more than 5 years | 856,702 | 858,992 |

Of the amounts due to customers, €8,658,477 thousand (previous year: €6,736,473 thousand) is accounted for by transactions with affiliated companies. Within this total of amounts due to customers, an amount of €8,536,291 thousand is due to the shareholder (previous year: €6,501,967 thousand).

Siemens Bank has not pledged or transferred any assets as collateral for amounts due to customers or banks, nor for other liabilities or contingent liabilities.

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) | 2022 | 2021 |
|---|---|---|
| **Other liabilities** | **28,331** | **73,021** |
| Liabilities to the shareholder | 21,104 | 66,091 |
| Withholding tax and duties to be paid | 2,693 | 2,823 |
| VAT liabilities and other items | 3,366 | 2,538 |
| Personnel-related obligations | 1,168 | 1,569 |

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.

Most 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 are based on the company's contributions made to the scheme and on the investment income from these contributions, whereby 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 €1,059 thousand as of September 30, 2022 (previous year: €1,052 thousand) and a cost value of €943 thousand (previous year: €800 thousand), are therefore fully offset against the pension obligations up to the amount of these obligations of €1,041 thousand (previous year: €944 thousand). Income and expenses each in the amount of €54 thousand (previous year: €132 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 €1,182 thousand (previous year: €2,448 thousand), are therefore offset against this pension obligation up to the amount of this obligation of €2,113 thousand (previous year: €2,238 thousand).

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

For the 2022 fiscal year, the total settlement amount for the pension provisions amounted to €21,807 thousand (previous year: €19,324 thousand), of which €1,972 thousand (previous year: €3,232 thousand) was accounted for by indirect obligations fully covered by assets. Pension provisions of €19,723 thousand (previous year: €16,093 thousand) are recognized. The actuarial measurement of the settlement amount was based on a number of variables, including discount rates of 1.77% (ten-year average) and 1.40% (seven-year average), respectively. Last year, the discount rates were 1.98% (ten-year average) and 1.39% (seven-year average), respectively. Other variables used as a basis were a salary growth rate in Germany of 2.5% per annum (previous year: 2.25%) and a pension growth rate of 2.0% per annum (previous year: 1.5%). For employees at the London Branch, a salary trend of 3.3% per annum is expected (previous year: 3.0%) and a pension growth rate of 3.2% per annum (previous year: 3.2%). Mortality tables developed specifically for the Siemens Group and last adjusted in the 2022 fiscal year (Siemens Bio 2017/2022) were used as the biometric calculation basis. These are essentially based on data from the German Siemens population using a set of formulas that comply with the recognized rules of actuarial mathematics.

The adjustment of the discount rate from a seven-year average to a ten-year average results in a difference of €1,037 thousand (previous year: €1,457 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 €48 thousand (previous year: €64 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 2022 fiscal year were as follows:

| (€'000) | Oct. 1, 2021 | Trans-ferred | Utilized |
|---|---|---|---|
| **Other provisions** | **16,010** | **-397** | **-2,344** |
| of which with maturities up to 1 year | 11,521 | -359 | -2,344 |

| (€'000) | Reversed | New | Sep. 30, 2022 |
|---|---|---|---|
| **Other provisions** | **-2,940** | **5,982** | **16,311** |
| of which with maturities up to 1 year | -1,477 | 5,875 | 13,216 |

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

| (€'000) | Oct. 1, 2020 | Trans-ferred | Utilized |
|---|---|---|---|
| **Other provisions** | **11,375** | **-667** | **-2,162** |
| of which with maturities up to 1 year | 8,237 | 27 | -2,152 |

| (€'000) | Reversed | New | Sep. 30, 2021 |
|---|---|---|---|
| **Other provisions** | **-515** | **7,980** | **16,010** |
| of which with maturities up to 1 year | -291 | 5,699 | 11,521 |

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) | 2022 | 2021 |
|---|---|---|
| **Other provisions** | **16,311** | **16,010** |
| Personnel-related provisions | 14,518 | 13,912 |
| Provisions for year-end costs | 365 | 253 |
| Provisions relating to lending business | 1,428 | 1,845 |

Lending business-related provisions result from the recognition of allowances for losses on loans and advances for latent credit risks for irrevocable loan commitments; in the previous year, they resulted from obligations from guarantees.

## 20 Equity

As last year, there were no changes to the components of equity in the 2022 fiscal year.

Due to plan adjustments of the pension plans from deferred compensation schemes, €48 thousand of the capital provisions are subject to a payout restriction (previous year: €64 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) | 2022 | 2021 |
|---|---|---|
| Assets denominated in foreign currency | 5,535,979 | 4,194,989 |
| Liabilities denominated in foreign currency | 5,509,091 | 4,335,454 |

# Other disclosures

## 22 Off-balance sheet transactions

Siemens Bank has contingent liabilities arising from lines of credit it has granted to customers for the issue of guarantee credit facilities. Under these guarantee credit facilities, Siemens Bank must make payments to the beneficiary if the Siemens Bank customer fails to meet its obligations. It is unknown 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.

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.

## 23 Derivative financial instruments

Siemens Bank did not hold any derivatives positions as of September 30, 2022:

| | Nominal amount | | | | |
|---|---|---|---|---|---|
| | 2022 | | | Total amount | |
| (€'000) | ≤ 1 year | >1 – 5 years | > 5 years | 2022 | 2021 |
| **Interest rate derivatives** | | | | | |
| OTC interest rate swaps | 0 | 0 | 0 | 0 | 174,500 |

The fair values of the derivative financial instruments as of September 30, 2022 and September 30, 2021 were as follows:

| | Market values (including accrued interest) | | | |
|---|---|---|---|---|
| | Positive | | Negative | |
| (€'000) | 2022 | 2021 | 2022 | 2021 |
| **Interest-rate derivatives** | | | | |
| OTC interest-rate swaps | 0 | 544 | 0 | -41 |

In the 2021 fiscal year, Siemens Bank fully hedged a fixed-interest deposit with a total volume of €78,000 thousand against interest rate-induced market risks by means of interest rate swaps OTC for a period of up to one year and designated these hedges as an HGB accounting group. The accounting groups were reversed in 2022.

These accounting groups were used in the previous year to hedge valuation effects from interest-rate risks amounting to €577 thousand (current fiscal year: €0 thousand). The effectiveness of the accounting group is always evidenced 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. In the previous year, Siemens Bank created a provision for onerous contracts in the amount of €33 thousand, which was recorded under other provisions as a component of the provisions for year-end costs and was reversed in the 2022 fiscal year.

For short-term interest rate swap transactions OTC not included in an accounting group, Siemens Bank allocated provisions for onerous contracts in the amount of €74 thousand in the previous year, which were also reported under other provisions as a component of the provisions for year-end costs and were reversed in the 2022 fiscal year.

## 24 Other financial obligations

Other financial obligations for the following years amount to €14,214 thousand (previous year: €14,862 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 €12,824 thousand (previous year: €13,055 thousand).

## 25 Employees

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

| Employees | 2022 | 2021 |
|---|---|---|
| Siemens Bank GmbH | 260.5 | 237.2 |
| **Munich branch (including Nuremberg and Erlangen)** | **200.1** | **173.5** |
| Employment contracts total | 208.2 | 181.0 |
| of which part-time | 31.4 | 29.6 |
| **London branch** | **34.0** | **33.2** |
| Employment contracts total | 34.0 | 33.2 |
| of which part-time | 0.0 | 0.0 |
| **Singapore branch** | **26.4** | **23.0** |
| Employment contracts total | 26.4 | 23.0 |
| 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:

» Siobhan Smyth, Chairwoman and Chief Executive Officer of Siemens Bank (since April 1, 2022)

» 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

Up until March 31, 2022, Roland Chalons-Browne was the Chairman and Chief Executive Officer of Siemens Bank. He did not receive any remuneration for his activities in the 2022 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 Executive Officer of the Siemens 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 chairwoman and Dr. Peter Rathgeb is deputy chairman 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 2022 fiscal year.

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

## 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 (smallest and largest scope of consolidation). The consolidated financial statements of Siemens AG are submitted for publication in the 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 2022 fiscal year amounts to €380 thousand (previous year: €356 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

A significant event to report following the end of the fiscal year is the opening of "amicable conciliation" proceedings (consensual proceedings under French law) by a borrower, which has resulted in a significant increase in allowances for this exposure.

Munich, on December 8, 2022

The Management Board

Siobhan Smyth Dr. Ingeborg Hampl Dr. Christoph Baumgarten

# Independent Auditor's Report

# 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, 2022 and the income statement for the fiscal year from October 1, 2021 to September 30, 2022 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, 2021 to September 30, 2022. In accordance with German legal requirements, we have not audited the content of the components of the management report specified in the “OTHER INFORMATION” section.

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, 2022 and of its results of operations for the fiscal year from October 1, 2021 to September 30, 2022; 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. Our audit opinion on the management report does not cover the content of the components of the management report specified in the “OTHER INFORMATION” section.

In accordance with section 322 (3) 1 of the German Commercial Code (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 Wirtschaftsprüfer (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 fiscal year from October 1, 2021 to September 30, 2022. 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 €7,944 million (previous year: €7,289 million) or 78% (previous year: 86%) of total assets, loans and advances to customers represent the largest asset item at Siemens Bank GmbH. The identification 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 and observable market prices 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" as a key audit matter, 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" in the "loans and advances to banks and customers" section.

### 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 (including the assessment of collateral), the rating processes 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. The assessment of the legal viability of physical collateral and personal guarantees provided was carried out with special consideration of the specific features of syndicated and, if applicable, bilateral financing, taking into account, among other things, the underlying contractual data.

## Other information

The legal representatives are responsible for the Other Information. Other Information includes:

» the management report on the course of business in the introduction to the 2022 financial statements of Siemens Bank GmbH.

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 that comply in all material respects with the requirement of 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 accounting 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 Company's ability to continue as a going concern, 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.

Furthermore, the legal representatives are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately 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 overseeing the Company's financial 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 misstatements – 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, complies 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 report.

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 Wirtschaftsprüfer (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 also

» 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.

» 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.

» 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.

- draw conclusions about the appropriateness of the going concern accounting 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.
- 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.
- 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.
- 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.

# Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditors by the annual general meeting on January 18, 2022. We were appointed by the Chairperson of the Supervisory Board on May 5, 2022. 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 submission procedure, KEV).

# Responsible German public auditor

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

Frankfurt am Main, December 8, 2022

BDO AG Wirtschaftsprüfungsgesellschaft

| signed Curt | signed Schmiederer |
|---|---|
| Wirtschaftsprüferin<br>(German public auditor) | Wirtschaftsprüfer<br>(German public auditor) |

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

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

Notes to the annual financial statements of Siemens Bank GmbH, Munich,
for the fiscal year from October 1, 2021 to September 30, 2022

Siemens Bank maintained the following branches in member states of the European Union as of September 30, 2022:

» Germany: Siemens Bank GmbH, Otto-Hahn-Ring 6, 81739 Munich (head office)

As of September 30, 2022, Siemens Bank had two branch offices in countries outside the European Union:

» United Kingdom: Siemens Bank GmbH, London Branch, 111 Old Broad Street, London, EC2N 1AP

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

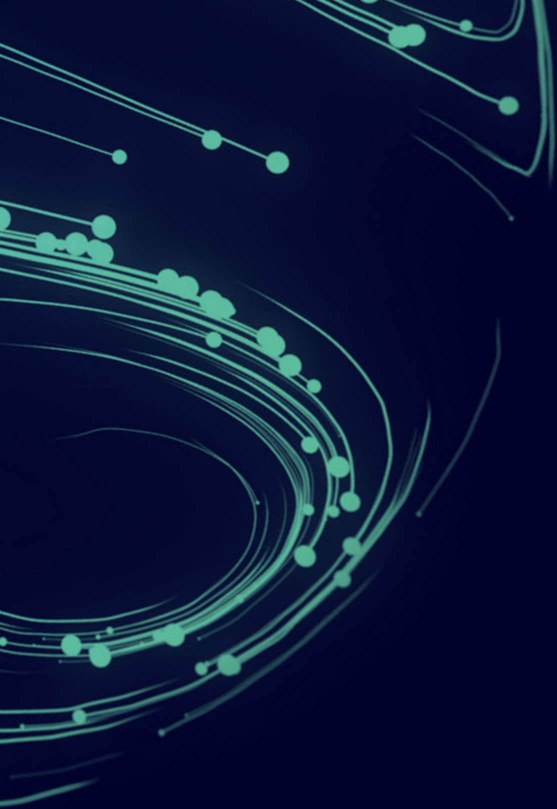
The consolidated breakdown of operations at these branches is as follows:

| | Germany | | United Kingdom | | Singapore | |
|---|---|---|---|---|---|---|
| (* €'000) | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Business type | Lending and guarantee business<br>Deposit business<br>Fee business | | Lending and guarantee business<br>Fee business | | Lending and guarantee business<br>Fee business | |
| **Figures** | | | | | | |
| Sales revenue * | 124,352 | 70,479 | 56,226 | 67,242 | 49,840 | 62,443 |
| Profit before tax * | -339,642 | 11,850 | 87,080 | 43,089 | 285,583 | 23,359 |
| Taxes on profit * | -320 | -172 | -6,660 | -8,807 | -4,938 | -3,265 |
| Government assistance received * | 0 | 0 | 0 | 0 | 0 | 0 |
| Number of employees on payroll | 206.6 | 188.4 | 35.0 | 33.0 | 28.0 | 25.0 |

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

Bank-wide external refinancing activities are carried out mainly via the Munich head office, which means that the branch offices are essentially financed within the Bank itself. For the presentation on a consolidated basis, all intra-Bank transactions between the branch offices and the head office are not taken into consideration. This has the consequence that, on the branch level, only the valuation effects from foreign currency positions in the lending business are taken into consideration which, as in the current fiscal year, results in high positive or negative valuation results at branch level in the event of strong exchange rate fluctuations. Taking into consideration the intra-Bank financing transactions, the effects from currency fluctuations are almost equalized.

Return on investment pursuant to section 26a (1) 4 KWG was 0.2% (previous year: 0.8%).



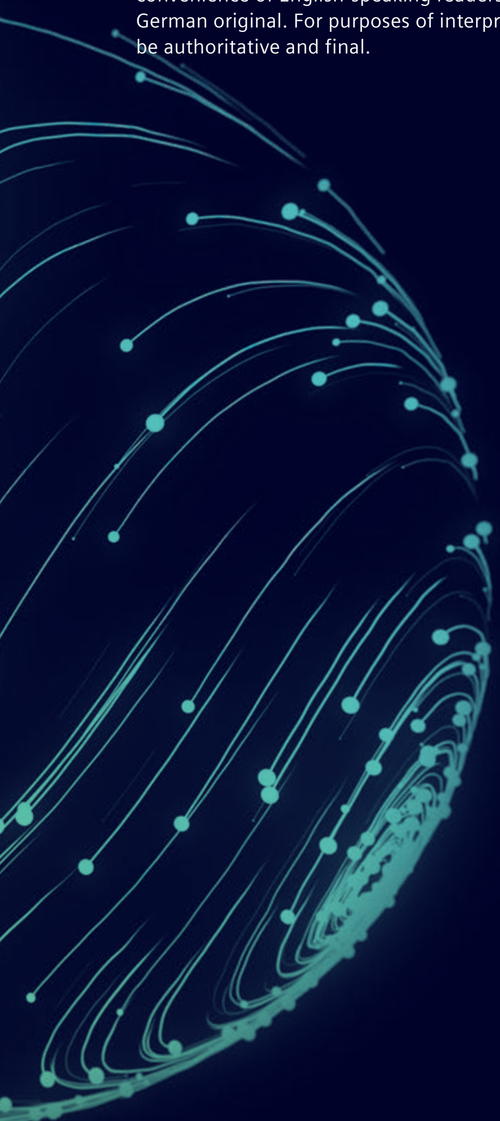
**Publisher:**
Siemens Bank GmbH
80200 Munich
Germany

info.siemens-bank@siemens.com

Printed in Germany
BR 0223



This version of the annual financial statements and the management report of Siemens Bank GmbH, Munich, has been prepared for the convenience of English-speaking readers and is a translation of the German original. For purposes of interpretation, the German text shall be authoritative and final.



**www.siemens.com/finance**