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Siemens Bank GmbH, Munich

Annual Report

for the fiscal year
ended September 30, 2014

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Editorial

Roland Chalons-Browne
Managing Director (CEO)

Dr. Ingeborg Hampl
Managing Director (CRO)

Dr. Peter Rathgeb
Managing Director (CFO)

Dear Reader,

In fiscal 2014, Siemens Bank was able to successfully continue its positive development. In view of the inconsistent economic signals around the world and the difficult political developments in some parts, this steady positive development is both pleasing and remarkable.

Our unique combination of risk competence, technological expertise and reliable liquidity and capital base was once again the foundation for our success in fiscal 2014. In particular against the backdrop of economic uncertainty, our customers focused increasingly on the technological and financial feasibility of their planned investment projects. Here, our participation in a wide range of international financial consortia allowed us to realize many projects in the markets for Energy, Healthcare, Industry and Infrastructure & Cities.

Examples of projects that were made possible by our financing can be found across all industries and on several continents. In Great Britain, for instance, we contributed structured financing to a public-private partnership for the construction of a large clinical center. Also in Great Britain, we helped finance what, at the time of commissioning, was the biggest offshore wind farm in the world, thus effectively supporting Siemens' success as the supplier of the wind turbines. In Bangladesh, we made a decisive contribution to the financing structure that enabled the construction of two state-of-the-art combined-cycle power plants with Siemens technology.

In general, our development over the past fiscal year was characterized by the expansion of international business, especially in the Asia-Pacific region.

The capital increase in fiscal 2014 proved to be a solid foundation for our growth. At the same time, it ensured compliance with future regulatory requirements in accordance with Basel III. The expansion of our lending and guarantee business went hand in hand with an increase in profitability. Our balance sheet figures attest to this positive development. What is also remarkable is that we managed to keep the number of loan defaults at the same low level as in previous years – proof of our efficient risk management.

The outlook for the coming years is extremely favorable. Demand for project financing will continue to grow around the world. The same is true of the importance Siemens Bank has for Siemens' financial value creation in important markets. Due to its growth and roots in the industry, Siemens Bank is in a very good position to meet financing requirements and support the growth plans of the Siemens Divisions.

Siemens Bank GmbH
The Managing Board

Roland Chalons-Browne
Managing Director (CEO)

Dr. Ingeborg Hampl
Managing Director (CRO)

Dr. Peter Rathgeb
Managing Director (CFO)

Content

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

of Siemens Bank GmbH, Munich,
for the period October 1, 2013, to September 30, 2014

Management report

of Siemens Bank GmbH, Munich, for the period October 1, 2013, to September 30, 2014

1 Business performance overview

1.1 Business activities of Siemens Bank GmbH

Siemens Bank GmbH, Munich, (hereinafter Siemens Bank) is part of the Cross-Sector Business Financial Services in the Siemens Group. Siemens AG, Berlin and Munich, (hereinafter Siemens AG) established Siemens Bank in 2011 with itself as the sole shareholder, broadening the range of sales-financing products in its Cross-Sector Business Financial Services, increasing flexibility in group finance, and optimizing its risk management.

There continue to be three pillars to the Siemens Bank business model, as was the case in previous fiscal years:

- Lending and guarantee business: This is the core business of Siemens Bank focusing on the provision of medium- to long-term financing for corporate clients, project companies and public-sector borrowers. The product portfolio currently comprises, in particular, capital investment loans, project finance, promissory note loans, and revolving loan facilities. Siemens Bank operates in both the primary market and the secondary market for loans.
  The structure of the lending and guarantee business was similar to that of the Sector organization within Siemens AG: Project & Structured Finance Energy, Project & Structured Finance Infrastructure & Cities and Industry, and Project, Structured & Leveraged Finance Healthcare.
- Deposit and treasury business: The deposit business focuses on the receipt and investment of overnight money and time deposits from companies in the Siemens Group and selected third-party institutions. The treasury business encompasses both Group financing activities and asset liability management. Asset liability management ensures that the credit business is funded by equity and deposits.
- Fee business: Key resources for managing financial risk and processing financial transactions in the Siemens Group are brought together within Siemens Bank. These resources not only support the company's own banking operations, they are also offered to Siemens AG, its subsidiaries, and selected third parties.

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

1.2 Economic environment

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

The continued economic recovery predicted in last year's management report did not materialize to the extent forecast in the outlook, although trends in the different economic regions varied considerably. According to data published by the Organization for Economic Cooperation and Development (OECD), gross domestic product (GDP) in OECD countries rose in the 2014 calendar year by 0.2% in the first quarter and by 0.4% in the second quarter, in both cases in comparison with the corresponding periods in 2013. The expected economic recovery in the US continued and growth rates in Asia, including those in key emerging markets such as China and India, remained relatively high. However, euro zone economies flatlined as the current geopolitical crises in Ukraine and other countries also had the effect of stifling growth. According to information issued by the German Federal Ministry for Economic Affairs and Energy, euro zone GDP (adjusted for inflation and season) remained almost unchanged compared with the equivalent period in 2013. Even within the euro zone, economic performance was not uniform, however. Sluggish growth in Germany, weakness in Italy and a stagnant economy in France contrasted with positive trends elsewhere, for example in the Netherlands, Portugal and in Spain. Nevertheless, the strain on public finances and restrictive lending terms continued to dampen growth in the southern euro zone countries.
A significant economic recovery was in evidence outside the euro zone. The United Kingdom's GDP for the second quarter was up by 3.2% year on year. Overall, the 2014 fiscal year saw an economic rebound outside the euro zone contrasting with economic performance within the euro zone itself, which remained weak.

To this extent, the main features of the 2014 fiscal year were the ongoing impact from a large number of uncertainties and the generally muted growth in the global economy.

Despite this challenging environment, Siemens Bank can report that the demand for financing solutions in markets relevant to its business is still being sustained at a high level because project finance and capital spending on equipment is generally subject to longer-term planning cycles. Furthermore, the broadly-based geographical positioning at Siemens Bank enables the Bank to offset weak trends in individual markets by exploiting opportunities in other stronger markets.

At the same time, however, Siemens Bank has observed increasing competition in the market for project and capital investment finance as interest rates remain low, particularly in the euro zone, and many banks have actively started to build up their lending portfolios again, focusing especially on investment-grade borrowers. Another factor adding to this competition is that many companies are exploiting the favorable capital market conditions to raise funding through bonds or replace existing finance with borrowing on better terms. These developments are continuing to squeeze margins in the lending market.

1.3 Regulatory environment

Under the Basel III framework, which was drawn up at international level in response to the financial crisis, regulatory requirements were redrafted and tightened up with the objective of ensuring that risks are covered by higher capital requirements, banks are strengthened by greater liquidity buffers, and the resilience of the overall system is increased in the event of a crisis.

At European level, the core legal provisions relating to the agreed reforms, the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV), came into effect on January 1, 2014. The CRD IV provisions were transposed into German law with the CRD IV Implementation Act, which involved far-reaching changes to national legal provisions in Germany. To ensure comprehensive effectiveness of the uniform rules and regulations for European banks, the core legal provisions provide for a large number of delegated legal acts and implementing acts that will be brought into force by the European Commission on the basis of proposals drawn up by the European Banking Authority (EBA). These delegated legal acts and implementation standards specify in detail the way in which banks and relevant authorities must satisfy the regulatory requirements set forth in the core CRR and CRD IV legal provisions. Approximately 50 such laws are to be enacted during the course of the 2014 calendar year. More enactments will follow at a rapid rate at least until 2017.

Siemens Bank constantly tracks the changes in European and national legislation and at an early stage set up a project to implement the CRR/CRD IV reform package. As a consequence of the date on which the central legal provisions at European level came into effect, most of the implementation effort occurred during the course of the 2014 fiscal year. However, implementation activities will be sustained at an intensive level in subsequent fiscal years to keep pace with the continuous adoption of the delegated legal acts and implementation standards.

At the same time as the implementation of the new European requirements, changes to reporting requirements came into force at national level, in particular as a consequence of the new German Financial Information Regulation (FinaV). These changes were also implemented in the 2014 fiscal year. The objective of these national reforms is to improve the information base and thereby strengthen the prudential supervision of banks at both micro and macro levels.

The Single Supervisory Mechanism (SSM) Regulation transfers responsibility for certain tasks in connection with the prudential supervision of banks to the European Central Bank (ECB), and this includes the role of central supervisory authority for financial institutions in the euro zone. From November 2014, the ECB will supervise the largest banks directly whereas national regulators will continue to be responsible for the prudential supervision of other banks. The SSM is complemented by the Single Resolution Mechanism (SRM) on the basis of the SRM Regulation, which in turn ensures that the resolution of a bank subject to the SSM and in serious difficulty can be carried out efficiently and without any great expense for the taxpayer and the real economy irrespective of the more stringent prudential supervision arrangements now in place. Siemens Bank is not directly affected by the SSM or SRM because it is one of the banks that will still be supervised by national authorities until further notice.

The Bank Recovery and Resolution Directive (BRRD) was adopted by the European Parliament in 2014. The objective of this Directive is to ensure that it is possible to cope with bank insolvencies in the EU without jeopardizing financial stability and without imposing a burden on taxpayers. The Directive sets out the rules for calculating the contributions to be paid by all financial institutions into national resolution funds or the single resolution fund. The BRRD is to be transposed into German law through the Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz [SAG]), which is currently in draft form. The resulting requirements for Siemens Bank are being continuously monitored and implemented.

The EU Deposit Guarantee Schemes Directive adopted in the 2014 fiscal year focuses in particular on the simplification and harmonization of protected deposits, faster repayment, and on improved funding for deposit protection schemes. On the basis of the implementation of the Directive's requirements in German law, which is likely to take place in 2015 in the form of the Deposit Protection and Investor Compensation Act (Einlagensicherungs- und Anlegerentschädigungsgesetz, [EAEG]), Siemens Bank does not expect there to be any material impact on its activities. The obligations arising from the revision of the EAEG to provide regular reports and information on the structure of reimbursable and covered deposits are currently being implemented by Siemens Bank.

In terms of overall impact, the adopted reforms have a far-reaching impact not only on the requirements for reporting to regulatory authorities but also on banking industry business models and therefore also on the banking landscape as a whole. For example, banks can be expected to take a more restrictive and selective approach to assuming new risk and/or to make efforts to reduce their existing risk positions. The new provisions also result in much tighter requirements for internal governance and liquidity management at banks. On the other hand, this situation presents business opportunities for banks that are still developing their portfolios focusing on specific markets and areas of business.

1.4 Business performance

Despite the persistently challenging economic and regulatory environment characterized by a number of unpredictable factors and uncertainties, Siemens Bank can once again look back on a successful 2014 fiscal year. The main features of the year under review were the continued significant expansion of the lending and guarantee business, the reduction in the short-term deposit business, the associated decrease in short-term liquidity investments, and the further increase in profitability. In terms of new business and profitability, the performance of Siemens Bank was in line with the expectations made by the Bank's management.

Net assets

In the 2014 fiscal year, Siemens Bank focused on the continuing expansion of business operations in its **core activity, lending and guarantee business**. As had been the case in 2013, lending book volume at Siemens Bank grew significantly by approximately 30% in the year under review.

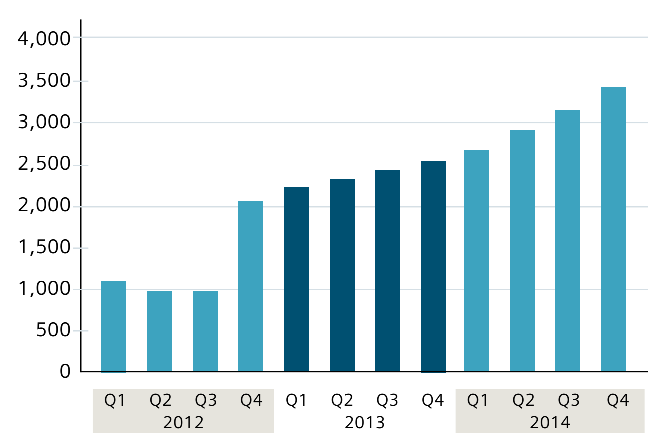

Figure 1: Growth in loans and advances to customers in the lending and guarantee business (€ million)

The substantial growth in this area of business is also reflected in the significant increase in irrevocable lending commitments to €782 million (September 30, 2013: €606 million).

As in 2013, this lending portfolio grew steadily over the course of the fiscal year. In the 2012 fiscal year, growth had been given a significant boost toward the end of the year as a series of transactions, such as project finance deals, set up during the year had been recognized on the balance sheet for the first time. Furthermore, one of the features of the sharp increase in the last quarter of the 2012 fiscal year had been the acquisition of a lending portfolio with a value of €581 million from Siemens Financial Services Ltd., Stoke Poges (United Kingdom). The purpose of acquiring this portfolio was to support the strategy of the Cross-Sector Business Financial Services, which was to consolidate the lending activities for Europe and Asia within Siemens Bank.

As at the end of the 2013 fiscal year, the main focus of this credit portfolio at the end of the year under review was on activities in Energy (PSF-E) and Infrastructure & Cities and Industry (PSF-IC&I). The portfolio in the area of Healthcare (PSLF-H) continues to be under development and therefore remains of minor significance within Siemens Bank. The relative importance of Energy increased during the year under review because Infrastructure & Cities and Industry experienced a rise in early repayments by customers as a result of the current market conditions.

Siemens Bank focuses on providing finance solutions for customers of Siemens AG and its subsidiaries. The vast majority of financing agreements have been signed with existing customers of Siemens AG and its subsidiaries, thereby indirectly supporting the activities of the Siemens Group. Siemens Bank also enters into financing agreements with Siemens' target customers, in emerging Siemens markets, and even in situations where there is no Siemens connection at all as long as there are business opportunities with an attractive risk-return profile in the lending market concerned.

Siemens Bank has not invested in government bonds or credit derivatives.

In the **deposit and treasury business**, the Group financing portfolio, which forms an integral part of the loans and advances to customers, has grown from €220 million to €300 million since the end of the 2013 fiscal year. The extent of this portfolio depends on the financing requirements of Siemens AG subsidiaries that cannot be covered by Siemens AG itself. The provision of collateral in cash means that Siemens Bank does not bear any credit risk in association with this business. Compared with the portfolios in the lending and guarantee business, this credit portfolio is of minor significance within the business of Siemens Bank as a whole.

Within the deposit and treasury business, the change in liquidity investments – which are reported under loans and advances to banks and credit balances with central banks as well as under loans and advances to customers – is closely linked to the change in the volume of deposit business with Siemens AG and its subsidiaries. Overall, this volume has diminished sharply since the end of the 2012 fiscal year, although there have been fluctuations during the course of the subsequent years. This decrease led to an overall fall in the total assets of Siemens Bank as of September 30, 2014, as had also been the case at the end of the previous fiscal year. In prior years, Siemens Bank invested a very high proportion of these deposits with other banks – including Deutsche Bundesbank, the German central bank – with the particular objective of achieving both positive returns and the highest possible level of security. Currently, a high proportion of this liquidity is invested in short-term promissory note loans to investment-grade issuers.

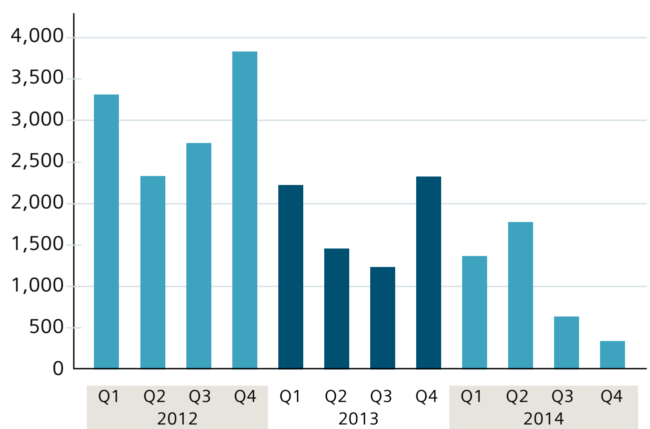

Figure 2: Change in liquidity-related investments in the deposit and treasury business (€ million)

Financial position

The business activities of Siemens Bank are largely funded by deposits and equity. Although by far the largest proportion of deposits is made by Siemens AG and its subsidiaries, Siemens Bank has also succeeded in attracting deposit customers from outside the Group. However, Siemens Bank does not accept retail banking deposits. In addition, a small portion of the business volume has been funded through central banks, so Siemens Bank has further sources of funding at its disposal outside the Siemens Group.

Where deposits are used directly for the purposes of funding credit business, they are matched as far as possible with the lending maturities and currencies so that the exposure of Siemens Bank to currency and maturity transformation risk is strictly limited.

The key features of the liquidity position at Siemens Bank are a high volume of short-term assets and an excess of short-term assets over short-term liabilities. Siemens Bank also has funding options available, in particular via Deutsche Bundesbank and Siemens AG. This ensures that Siemens Bank is always in a position to meet its payment obligations.

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

Results of operations

A noticeable feature of the 2014 fiscal year was the significant improvement in net interest income and therefore in the net operating income of Siemens Bank.

(€ million)	2014	2013	2012
Net interest income	91.4	75.6	31.3
Net fee and commission income	14.2	17.1	16.2
General administrative expenses	-45.7	-38.4	-28.9
Other income and expenses, net	6.5	-1.3	-0.5
Net operating income before allowances for losses on loans and advances	**66.4**	**53.0**	**18.1**
Allowances for losses on loans and advances	-16.5	-12.8	-5.7
Net operating income	**49.9**	**40.2**	**12.4**

Figure 3: Components of Siemens Bank income

Net interest income at Siemens Bank arises from the spread between interest income on loans and investments on one side and funding-related interest expense on the other. Interest terms also reflect the effect of inflation. The substantial improvement in net interest income is attributable to the significant rise in the volume of loans and advances to customers in the core activity, lending and guarantee business, compared with prior years and to the smoothing of the growth in this portfolio since the 2013 fiscal year. The net interest margin contribution from the lending and guarantee business generates most of the net interest income. Liquidity investments in the deposit and treasury business normally generate lower interest margins.

Given the considerable expansion in the lending and guarantee business, there has been a continuing decline in the importance of **net fee and commission income** for the results of operations at Siemens Bank. The volume of charged services also decreased overall in the fiscal year under review. Siemens Bank earns fee and commission income primarily by providing risk management and processing services for Siemens AG and its subsidiaries. The costs incurred in providing the services are reported under general administration expenses.

Approximately 61% of **general administration expenses** at Siemens Bank are attributable to personnel expenses (2013: 62%). Siemens Bank employees are responsible for carrying out its own banking operations and also for providing risk management and processing services. The other administrative expenses are largely accounted for by the purchase of services from Siemens AG and its subsidiaries as well as from third parties. This purchase of services also includes the purchase of all IT systems required by Siemens Bank. The significant increase in the general administration expenses in the fiscal years 2012 to 2014 was largely attributable to the expansion of activities in the lending and deposit businesses and also to the further development of the IT infrastructure in the 2014 fiscal year.

Other net operating income is for the most part determined by the effects of exchange rates.

Although the lending book once again grew significantly in the year under review, the relative contribution from **allowances for losses on loans and advances** to net operating income remained at the prior-year level. The sharp rise in the 2013 fiscal year was attributable to a large extent to the expansion in the lending and guarantee business, which – in contrast to net interest income – had an immediate impact on net operating income. Given the excellent credit quality of the loans and advances portfolio held by Siemens Bank, **allowances for losses on loans and advances** continued to be recognized at a modest level in the year under review with stable ratio respectively a fall in the ratio of these allowances to net operating income before allowances for loan losses.

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

As in the 2013 fiscal year, the net operating income before tax reported here represents Siemens Bank's **key financial performance indicator**. Other indicators such as return on equity after tax (RoE) and economic value added (EVA) are used in the pricing of credit transactions and the management of the lending portfolio.


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2 Risk report

2.1 Risk strategy

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

2.1.1 Objective

Siemens Bank is required to specifically identify, measure, manage, monitor, and report risks that it has already taken on, together with any future risks that may occur, as part of the implementation of the Bank's business strategy. This gives rise to a requirement for integrated management of target returns and risk strategy. In order to ensure that this requirement is satisfied, Siemens Bank has defined a risk strategy in which top priority is given to a responsible approach to risk and in which a core set of principles is set out as the basis for taking on risk.

The risk strategy specifies details for the implementation of the requirements under the business strategy in relation to issues subject to risk and in relation to strategic direction from a risk perspective while at the same time taking into account the overall objectives of the business strategy and the risk appetite of Siemens Bank. This forms the basis on which Siemens Bank determines its guidelines for risk management and the target system for risk strategy at the Bank. The most important risk principle is compliance at all times with both capital adequacy and liquidity requirements. Top priority is also given to avoiding concentration risk and ensuring continuous compliance with statutory and regulatory requirements.

Siemens Bank follows a clearly defined process for developing its risk strategy. The risk strategy is updated at regular intervals (or if triggered by a particular requirement) based on the business strategy. 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 risk inventory is then used to construct the risk strategy objectives and action plans, the implementation of which is monitored as part of the overall risk reporting system.

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), the Capital Requirements Directive IV (CRD IV), and the related regulations and circulars. This includes continual compliance with and the monitoring of the capital, large obligor, liquidity and compensation standards as well as the German Minimum Requirements for Risk Management at Banks (MaRisk).

In the 2013 fiscal year, Siemens Bank initiated a comprehensive project to implement the requirements related to the CRR and CRD IV. This project was completed in the fiscal year that has just ended. Additionally, the compliance function will ensure continual and timely implementation of new Regulatory Technical Standards (RTS) and Implementation Technical Standards (ITS).

2.2 Risk management and organization

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

2.2.1 Organizational structure

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

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

Segregation of functions

Within the organizational structure of Siemens Bank, there is a strictly defined segregation of front office and back office in terms of both functions and disciplinary arrangements, and this segregation applies right up to the Management Board level. The areas covered by the Chief Financial Officer (CFO) and the Chief Risk Officer (CRO) are organized entirely within the back office, whereas the areas covered by the Chief Executive Officer (CEO) are assigned in full to the front office. All credit decisions are only valid if they receive consent from both front office and back office. The authority rules and regulations specify that the back office may not be overruled.

Operational management of risk at Siemens Bank is carried out within the risk strategy framework and subject to the limits specified by the back office. The risk strategy framework and risk management limits are defined by the back office, whereas the front office is responsible for the operational implementation of risk management. Operational risk management is monitored and 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 control of the risks accepted by Siemens Bank. Risk analysis includes identifying risks taken on by the Bank, developing suitable methods for measuring and quantifying risk, and analyzing the current risk situation. The analysis of the risk situation is based on the requirements of economic capital adequacy management. Risk control comprises activities to quantify and validate the risks taken on by the Bank, activities to monitor the authorized limits and capital adequacy, and activities associated with risk reporting.

Committees

The Siemens Bank Risk Committee is the central committee responsible for implementing integrated risk-return management and risk management within the meaning of section 25a (1a) 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 capital adequacy concept. The Risk Committee is responsible for the guidelines on credit 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.

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.

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

Risk monitoring

The Finance, Risk Controlling, and Operations 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, the Market Risk Controlling department for monitoring market and liquidity risk, and the Integrated Risk Controlling and Organization department for matters relating to integrated risk controlling and operational risk. The head of Finance, Risk Controlling, and Operations sits on the Risk Committee, the Asset Liability Management Committee, and Credit Committee and also participates in the meetings of the Management Board and is therefore involved in all aspects of decision-making processes relevant to risk policy. Finance, Risk Controlling, and Operations supports and 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 risk capital adequacy concept. Based on the risk strategy and the risk capital adequacy concept, Finance, Risk Controlling, and Operations supports the Management Board with implementing an effective and efficient limit structure and with general limits for risks. The key responsibilities of the departments that comprise 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), measuring and assessing risks on a daily or regular basis, monitoring the utilization of 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, in cooperation with the CFO, to decide on the models and methods used in these controlling tasks, including their ongoing refinement and validation. The models and methods are designed and developed mostly by the Methods department, which also reports to the CFO. The Risk Committee must be informed of material changes to these methods.

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

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

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 economic capital adequacy assessment and detailed reports on significant individual risks. The report on capital adequacy is based on a comprehensive economic capital adequacy assessment, which in turn 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 counterparty default risk, market risk, liquidity risk, and operational risk, as well as quantifiable, non-material risks.

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

(translation of the German original)

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 also performed monthly as well as through the daily liquidity gap analysis. Refinancing risk is reported weekly. The reports focus on the economic capital requirement for the refinancing risk taken on by the Bank as well as on the monitoring of the operational Value-at-Risk limits.

The reporting of operational risks is part of the quarterly internal capital adequacy report. Losses in excess of €50 thousand 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. The implementation of these action plans is monitored in separate, quarterly reports.

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

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

The Accounting, Controlling and Regulatory Reporting department is responsible for external financial reporting and for the internal control system related to accounting processes. This department reports to the head of Finance, Risk Controlling and Operations and thereby to the CFO of Siemens Bank.

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

Procedures

The procedures and the internal control system for accounting processes are fully documented in process descriptions and work instructions. Accounting policies are described in the closing guidelines for Siemens Bank. Generally accepted accounting 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 once a year (or as warranted) for their appropriateness. 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.

Individual training plans have been defined for the employees in the Accounting, Controlling and Regulatory Reporting department. These plans are revised and updated each year.

2.2.3 Integrated risk-return management and capital adequacy

Integrated risk-return management

The management of internal and regulatory capital, 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 accepted within the different fields of activity at Siemens Bank is at all times consistent with the available capital, both at the overall bank level and within individual types of risk. The Management Board of Siemens Bank specifies the capital resources necessary for the Bank based on the business and risk strategies and in accordance with the defined target returns and strategic risk requirements. As part of the Bank's 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 figures in terms of pricing are EVA and ROE based on economic capital (return on risk-adjusted capital, or RORAC).

Capital adequacy

Siemens Bank has drawn up a concept for monitoring its capital adequacy in order to ensure that it has sufficient capital and liquidity at all times as required by section 25a of KWG. The Bank's Management Board reviews the 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 based on the business and risk strategy. The modified concept is then approved by the Bank's Supervisory Board.

Siemens Bank applies the "gone concern" method (protection for creditors) in its internal management and limitation of risk. The gone concern method is based on a comprehensive risk approach in combination 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. Despite using the gone concern method, Siemens Bank follows the goal of remaining a going concern. At least once a year, a calculation is prepared based on the going concern method with a risk horizon and confidence level of one year and 95% respectively.

Siemens Bank determines its risk-taking potential with a strictly value-based approach in accordance with the circular "Aufsichtsrechtliche Beurteilung bankinterner Risikotragfähigkeitskonzepte" (regulatory evaluation of internal capital adequacy concepts) issued by the German Federal Financial Supervisory Authority (BaFin) in December 2011. The risk-taking potential comprises partly regulatory Tier 1 and Tier 2 capital (together referred to as core risk-taking potential) and partly an adjustment for the hidden reserves and charges from the portfolio of Siemens Bank. Expected losses, potential costs from eliminating liquidity gaps, and administration costs are also taken into account in the calculation. If the result is a negative amount, the core risk-taking potential is reduced by that amount. If the result is a positive amount, the amount is reduced by a risk buffer and is included in the internal capital adequacy calculation as additional risk-taking potential.

As of September 30, 2014, the risk-taking potential consisted of the following:

in € million	2014	2013
Tier 1 capital	1,000.0	500.0
Tier 2 captial	15.0	3.8
Additional, risk-taking potential	307.1	216.1
Total risk-taking potential	**1,322.1**	**719.9**

Figure 4: Composition of the risk-taking potential

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

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

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

- Counterparty default risk
- Market risk
- Liquidity risk (in the sense of risk of insolvency)
- Operational risk
- Refinancing risk

Additionally, the following non-material risks are separately quantified.

- Prepayment risk
- Business risk in terms of margin risk

The allocation and usage of the risk-taking potential as of September 30, 2014, was as follows:

in € million	2014		2013	
Risk-taking potential	1,322.1		719.9	
thereof additional risk-taking potential	307.1		216.1	
thereof core risk-taking potential	1,015.0		503.8	
	Risk-taking potential	**Required risk catpital**	**Risk-taking potential**	**Required risk catpital**
Risk capital for operational risks	8.0	8.0	6.0	6.0
Risk capital for counterparty default risk	600.0	234.3	320.0	181.7
Risk capital for market risk	10.0	2.5	10.0	1.6
Risk capital for refinancing risk	30.0	2.9	20.0	6.0
Normal case	**648.0**	**247.6**	**356.0**	**195.3**
Risk capital for operational risks		14.0		7.1
Risk capital for counterparty default risk		375.5		258.9
Risk capital for market risk		3.6		2.1
Risk capital for refinancing risk		5.7		10.9
Risk capital for business risk		52.1		29.7
Risk captial for prepayment risk		20.3		14.6
Buffer for other non-material risks		17.8		17.8
Stress case total	**1,322,1**	**489.0**	**719.9**	**341.1**

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

The additional risk-taking potential is used only to cover prepayment and business risks. Only the core risk-taking potential is used to cover the material risks. To quantify the internal capital requirement for counterparty default risk, market risk, and refinancing risk, Siemens Bank applies Value-at-Risk approaches with a confidence level of 99.95% and a risk horizon of one year. For prepayment risk, Siemens Bank uses a stress scenario which simulates that the entire credit portfolio is prepaid on the reporting day. An exception is operational risk, which is quantified using the basic indicator approach in accordance with CRR.

When determining the economic capital requirement, Siemens Bank does not assume there will be any diversification effect between the individual risk types. Except in the case of liquidity risk, a specific risk amount is determined for each of the material risk types listed above. Liquidity risk (in the sense of risk of insolvency) is not covered by risk capital as part of the capital adequacy analysis because there is no meaningful way in which this can be achieved. In its place, 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 Asset Liability Management Committee. These limits are derived from Siemens Bank's liquidity risk tolerance.

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.

Stress testing

In the context of capital adequacy, Siemens Bank has defined appropriate stress test scenarios for each material risk. The stress tests are aligned with the action plans and objectives 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 initial parameters for the various methods are adjusted on the basis of both hypothetical and historical stress scenarios. The Bank analyzes both risk-specific scenarios and overarching scenarios that involve some or all of the risk types. Stress testing is integrated into the analysis of capital adequacy to enable the Bank to identify any need for action at an early stage and ensure capital adequacy even when tough market conditions prevail.

The required risk capital relating to the buffer for other, non-material risks is reported as utilizing the full amount of the corresponding available risk-taking potential. The same also applies to operational risk as the required risk capital in this case is determined in accordance with the basic indicator approach as specified in CRR.

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

Due to the consistently increasing business volume, utilization of the risk-taking potential throughout the fiscal year in both the stress case and the normal case was at or below the level as of September 30, 2014. For fiscal year 2015, Siemens Bank is forecasting that capital adequacy will be assured at all times both in the normal case and if the stress scenarios are taken into account.

Regulatory capital adequacy

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

As of September 30, 2014, the composition of regulatory capital at Siemens Bank was as follows:

in € million	2014	2013
Tier 1 Capital	**999.7**	**500.0**
Paid up capital instruments	5.0	5.0
Adjustments due to the requirements for prudent valuation	-0.3	0.0
Other reserves	995.0	495.0
Tier 1 Capital	**999.7**	**500.0**
SA General credit risk adjustments	15.0	3.8
TIER 2 Capital	**15.0**	**3.8**
Total of regulatory, available capital	**1,014.7**	**503.8**

Figure 6: Composition of regulatory capital as of September 30, 2014 (prior year figures transferred to new position scheme)

For the purposes of determining capital adequacy, regulatory capital is the same as the core risk-taking potential but without the adjustment for prudential valuation.

Siemens Bank uses the standardized approach to credit risk for the purposes of measuring and covering the regulatory capital requirements with respect to counterparty default risk. It uses the Standardized Approach for measuring market risk and the Basic Indicator Approach for measuring operational risk.

The following table shows the regulatory capital requirements for the individual risk types:

in € million	2014	2013
1. Counterparty default risk		
Counterparty default risk, standardized approach		
Central governments	1.6	1.6
Institutions	7.0	3.3
Corporates	308.6	223.6
Other	0.1	0.0
Overdues	0.0	0.2
Sum of counterparty default risk	**317.3**	**228.7**
2. Market risk		
Standardized approach	9.3	5.0
- thereof currency risk	9.3	5.0
Sum market risk	**9.3**	**5.0**
3. Operational risk		
Basic indicator approach	8.1	5.1
Sum operational risk	**8.1**	**5.1**
Total capital requirements	**334.6**	**238.8**

Figure 7: Regulatory capital requirements as of September 30, 2014

Siemens Bank must ensure a total capital ratio of 8% as per CRR. The total capital ratio is the ratio of Siemens Bank's regulatory capital to the total amount from risk-weighted assets. As of September 30, 2014, the total capital ratio for Siemens Bank was 24.26% according to the final financial statements prepared by the board of directors (September 30, 2013: 16.88% according to the financial statements approved by the shareholder). As Siemens Bank's equity comprises almost exclusively Tier 1 capital components, the total capital ratio is only slightly higher than the Tier 1 capital ratio of 23.90% according to the final financial statements (September 30, 2013: 16.75%). Both ratios are therefore markedly higher than the total capital ratio of 8% specified by the regulatory requirements.

The difference between the required regulatory capital of €334.6 million (September 30, 2013: €238.8 million) and the required economic risk capital in the normal scenario of €247.6 million (September 30, 2013: €195.3 million) and in the stress scenario of €489.0 million (September 30, 2013: €349.9 million) is the result of Siemens Bank using its own risk models in the calculation of the required economic risk capital.

2.3 Counterparty default risk

Siemens Bank understands counterparty 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 counterparty 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 counterparty default risk comprises the credit policy and its associated guidelines for counterparty 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 risk that governments or central banks will fail to meet their obligations to Siemens Bank, either partially or in full. Credit risk is the principal form of counterparty 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. Siemens Bank does currently not hold issuer risk positions of any kind. On September 30, 2014, Siemens Bank was exposed to issuer risk through commercial paper positions with maturities of less than three months. For the next fiscal year, Siemens Bank plans a controlled expansion of its issuer risk.

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 10 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 consists of a total of 19 different credit ratings 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 could be used as the input for a credit rating procedure. All external credit ratings used by the Bank in its risk classification procedures are obtained exclusively from Standard & Poor's, 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 non-encumbered customers.

If a borrower is classified with a credit rating of 8+ or worse, the borrower concerned is transferred to intensified loan management. A borrower may in any case be transferred to intensified loan management without a downgrade to a rating of 8+ or worse if other criteria for intensified loan management are met – e.g. a request by the customer for loan restructuring or there is 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 workout unit. Rating category 9 covers all borrowers who have been subject to loan restructuring; category 10 comprises all borrowers already in default.

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

Expected loss

To determine the expected loss, the Bank forecasts the average loss it expects based on the current credit rating and the 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 portfolio analysis, the expected loss is calculated for a period of one year; for the purposes of pricing new business, the maturity of the exposure is used in order to calculate the expected loss. Pricing takes into account both the loan amount to be paid out and any weighted amounts from undrawn commitments so the Bank can estimate the business volume in the event of a default.

Unexpected loss

A Credit Value-at-Risk approach is used to analyze credit portfolio risk and 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 if there are 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 credit 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 both losses from defaults and economic losses already incurred by a risk unit 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. 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 forecast quality and discriminatory power takes place monthly. If there are any anomalies, the results are used as the basis for adjusting structures and the methodology.

Pricing

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

Early detection of risk

The credit rating process at Siemens Bank is based on established monitoring and reporting 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. In addition to this early detection of risk in the credit rating process, Siemens Bank has established a quantitative early risk detection system based on credit spreads observed in the markets. In this system, the Bank carries out a risk analysis based on trends in CDSs or bond spreads so it can respond quickly to any deterioration in market-implied creditworthiness and initiate corrective measures, if required.

Stress testing

Credit 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 capital adequacy calculation as well as on demand. 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 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 capital adequacy, they are nevertheless important indicators in the early detection of risk and in the identification of possible risks to 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 model that simulates the impact of a recession on the credit portfolio and the Bank's 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 risk capital 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 potential 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 by independent third parties, for example 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 legally and directly enforceable, and the guarantor is not an individual. In the case of syndicated loans, management of collateral may be transferred to the agent for the loan syndicate.

Collateral in the first category results in a reduction in the expected loss and unexpected loss because the recovery rate for the transaction is increased. 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 Loan loss allowances

Siemens Bank recognizes individual allowances for loans classified as subject to workout. 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 allowances to cover the latent credit risk in the portfolio of loans and advances. In this case, rating-related allowance rates are applied to the unsecured exposure. These allowance rates include rating-related assumptions on the probability of default and assumptions on the proportion of loss in the event of a default. The rating also factors in an assessment of country risk, with the result that any general allowance recognized by the Bank also covers the assumed latent country risk.

As of September 30, 2014, Siemens Bank had total recognized individual and general loan loss allowances of €15.6 million (September 30, 2013: €13.5 million).

2.3.5 Analysis of the credit portfolio as of September 30, 2014

The required economic capital for counterparty default risk as of September 30, 2014, was €234.3 million. The allocated risk-taking potential for counterparty default risk was €600.0 million. Over the course of the fiscal year, the utilization of the risk-taking potential consistently increased in line with the growth in the overall portfolio. The amount of required capital is largely determined by the credit portfolio volume, borrower credit ratings, and borrower industrial sectors.

The focus of the credit portfolio on corporates and project financing is aligned with the business strategy of the Bank.

As of September 30, 2014, the credit portfolio had a nominal exposure of €4,297.7 million (September 30, 2013: €3,112.7 million), of which €4,077.7 million (September 30, 2013: €3,012.7 million) was attributable to private-sector borrowers and €220.0 million (September 30, 2013: €100.0 million) to public-sector borrowers.

The main emphasis of the private-sector business is on the energy, industrial, and transport sectors.

A breakdown of the Siemens Bank credit portfolio by credit rating as of September 30, 2014, is shown in the following table:

in € million	2014	2013
Rating	Outstanding	Outstanding
1	0.0	1.0
2+	0.0	0.0
2	64.3	0.0
2-	243.0	123.0
3+	100.4	302.7
3	100.0	50.0
3-	144.2	25.0
4+	190.9	151.1
4-	670.2	492.3
5+	875.5	644.2
5-	786.9	540.9
6+	465.5	341.2
6-	271.2	217.8
7+	91.7	60.1
7-	237.1	95.0
8+	25.4	57.2
8-	0.0	0.0
9	27.7	0.0
10	3.8	11.3
Total	**4,297.7**	**3,112.7**

Figure 8: Credit portfolio by rating

As of September 30, 2014, the investment grade exposure (rating 1 through 5+) totaled €2,388.5 million, and the non-investment grade exposure (rating 5- through 10) totaled €1,909.3 million. There was a total of €27.7 million of credit exposure with a high likelihood of default (rating 9) as of September 30, 2014. As of September 30, 2014, defaults in the credit portfolio totaled €3.8 Mio (rating 10).

The breakdown of the credit portfolio by geographical area (based on the country of risk) highlights the Bank's business strategy of focusing on customers in Europe and Asia.

in € million	2014	2013
	Outstanding	Outstanding
EU excluding the euro zone	1080.8	878.6
Euro zone excluding Germany	856.9	707.6
Germany	816.7	580.9
Europe excluding the EU	582.1	473.4
Asia	596.7	241.2
Australia/Oceania	197.9	144.6
Americas	166.7	86.4
Total	**4,297.7**	**3,112.7**

Figure 9: Credit portfolio by geographical area


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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 refinancing 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 and its associated guidelines. The asset liability management 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 (either in euros or in 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 contractually agreed and modeled cash flows are reported on a daily basis and translated into euros. A subsequent gap analysis for the individual time buckets 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 for each material currency.

During the course of the day, the latest account balances are continuously monitored in order to ensure liquidity is maintained.

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

Refinancing risk

Refinancing 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. Each week, the maximum present value loss arising from changes in funding terms and conditions is calculated in the form of Liquidity Value-at-Risk (LVaR) based on the net cash flows determined in a spread-sensitive liquidity gap profile.

Prepayment risk

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

Limit structure

Siemens Bank defines its liquidity risk tolerance over a period of 12 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 up to one month, the limit is represented by a liquidity buffer, which is determined as a result of the liquidity stress tests. Limits in place for other time periods up to one year are set yearly and are based on the total asset volume. If a limit is exceeded, the Asset Liability Management Committee has to be informed without delay and action has to be initiated to restore compliance with the limit.

Refinancing risk is managed through operational Value-at-Risk limits at a bank-wide level. Liquidity risk controlling continuously monitors these limits. If a limit breach occurs, the ALM Committee is to be informed immediately and measures undertaken in order to reduce the breach until the position is within the appropriate limit. The operational management is the responsibility of the Treasury Department of Siemens Bank. Siemens Bank takes on refinancing positions which result in liquidity risk only within the framework of asset liability management. Derivatives are currently only allowed in order to reduce risk, but not as a means of creating new refinancing positions.

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

2.4.2 Modeling

Modeling

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

Siemens Bank uses an internal Liquidity Value-at-Risk model to measure refinancing 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 capital adequacy.

Prepayment risk is modeled through a stress case and reported monthly. The stress case assumes that all credit deals are prepaid on the reporting date, and the resulting costs are calculated against the risk-taking potential in the capital adequacy calculation.

Liquidity buffer

For 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 KEV program („Krediteinreichungsverfahren"), in which the Bank's loans to customers are eligible for submission to Deutsche Bundesbank as collateral. The minimum reserve at the Deutsche Bundesbank is not included in the buffer.

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 determine the minimum level of the liquidity buffer. The results of the stress tests are reported in the overall risk report and to the Asset Liability Management Committee in the monthly market and liquidity risk report.

Refinancing risk stress case is calculated with the assumption of increased volatilities of the credit 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 liquidity risk controlling.

Liquidity 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, 2014

The liquidity gap profile comprising deterministic, optional and modeled cash flows shows a single period of negative cumulative cash flows in 15- to 36-month time buckets as of September 30, 2014. The short- and medium-term cumulative cash flows up to one year are consistently positive. As of September 30, 2014, the net cash surplus for one day was €722.2 million, for one week €543.8 million, for one month €419.6 million, and for three months €218.1 million. The optional and modeled cash flows are included in these figures and are already adjusted for risk. Siemens Bank continued to increase its liquidity buffer over the last fiscal year. As of September 30, 2014, this buffer (comprising assets eligible as collateral with central banks) amounted to €564.6 million (September 30, 2013: €399.7 million).

Within strict limits, deposits are also used for refinancing credit business. Given the largely maturity-matched funding of the credit business, Siemens Bank had, as of September 30, 2014, a Liquidity Value-at-Risk of €2.9 million (September 30, 2013: €6.0 million) with a confidence level of 99.95% and a horizon of one year because of the negative cash flows in the 15- to 36-month time buckets. The allocated risk-taking potential for refinancing risk was €30.0 million.

There were no accounting losses during fiscal year 2014 arising from prepayments. The realized loan discounts were higher than the corresponding market value compensation payments.

2.5 Market risk

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

Siemens Bank does not have a trading book. Currently, the Bank's business and risk strategy only allows it to enter into trading deals for the purposes of mitigating risk. To the greatest possible extent, Siemens Bank therefore avoids market risk positions and only enters into such transactions within tightly specified parameters. 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 the plain vanilla interest-rate and currency derivatives that it enters into to reduce the risk arising from open positions.

2.5.1 Risk management

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

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

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

2.5.2 Modeling

Risk model

Siemens Bank uses an internal Value-at-Risk model, based on a variance/covariance approach 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 a reconciliation to capital adequacy.

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 P&L) is compared against the calculated Value-at-Risk. If the hypothetical P&L 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 capital adequacy assessment use, in particular, three degrees of macroeconomic downturn (light, moderate, severe) as the basis for the tests.

2.5.3 Market risk analysis as of September 30, 2014

As of September 30, 2014, the required economic capital for market risk was €2.5 million. The allocated risk-taking potential for market risk was €10.0 million. At no time during the fiscal year were the loss limits relating to the Treasury function at risk of being breached. The utilization of the allocated risk-taking potential did not exceed the allocation at any point during the fiscal year.

2.6 Operational risk

Operational risk 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 operational risk 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 operational risk management comprises both central and local components. Basic responsibility for the management of operational risk lies at the local level with the relevant Siemens Bank departments and units. This management is coordinated by an operational risk manager appointed by the Management Board. The operational risk manager acts as a central point of contact for all matters concerning operational risk 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 countermeasures with 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 operational risk 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 as specified in CRR in order to measure and cover the regulatory capital requirement for operational risk.

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

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.

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, 2014

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, 2014, was €8.0 million. The required capital is based on the regulatory calculation specified in the CRR and is adjusted yearly based on the final financial statements.

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.

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

Business risk in terms of margin risk is separately considered in the internal capital adequacy calculation. This risk is intertwined with 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 margin risk is not possible through a limit structure; therefore, the Management Board manages this risk on a bank-wide level.

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 credit portfolio in terms of strategic alignment and trends.

3 Other information

Since the 2012 fiscal year, Siemens Bank has maintained a branch in London, United Kingdom, where it operates its lending and guarantee business. There are no other branches.

As in 2013, Siemens Bank was involved in a large number of group-wide programs and initiatives in 2014 under the auspices of Siemens AG, such as

- compliance programs to ensure compliance with legal requirements as an indispensable basis for demonstrating the integrity of the Group's business activities so that Siemens is perceived by stakeholders as a trustworthy partner,
- sustainability management to promote responsible conduct at economic, environmental, and social levels for the benefit of future generations,
- diversity management to support employees in various private and professional situations and help them meet the challenges in both their working and private lives, and
- initiatives to support a work-life balance, for example tax-free childcare subsidies and childcare places linked to employment contracts.

No non-financial performance indicators were used during the 2014 fiscal year to manage the business.

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

An extremely important factor in Siemens Bank's business performance was the confirmation of its credit rating by Moody's credit rating agency in December 2014. In a Credit Opinion, Moody's confirmed an unchanged long-term rating for Siemens Bank of A1 (stable outlook) and an unchanged short-term rating of P-1.

4 Outlook

Trends in the economic environment

In an economic forecast published during the fall of 2014, the Economic and Monetary Policy Committee of the Association of German Banks predicts that the global economy will grow by a maximum of 3.2% over the remainder of the 2014 calendar year and that there will be no further rebound in economic growth. The committee believes it is possible that growth could accelerate to 3.9% for the coming calendar year, although it forecasts that this growth will continue to vary between different economic regions. The main impetus for growth is expected to come from the US and emerging markets, with a stabilization of growth and economic recovery predicted for China and India respectively. The committee forecasts that the economic recovery in the euro zone will continue but low growth of just 0.8% is likely for the whole of the 2014 calendar year, followed by 1.2% in the subsequent year. The euro zone is not expected to slip back into recession. Nevertheless, structural problems are preventing many countries in the euro zone from achieving higher growth rates. In the United Kingdom, HM Treasury's September forecast (which is based on various other forecasts) predicts that the country will see economic growth of 3.1% over the whole of 2014, and 2.7% in 2015.

Siemens Bank shares the expectation that the growth in key markets apparent in 2014 will continue in 2015 and beyond. In addition, Siemens Bank predicts that many Asian countries will continue to enjoy high growth rates. Nevertheless, Siemens Bank also believes that the global economy is facing a number of serious uncertainties, such as the ongoing structural problems in the euro zone and a series of geopolitical crises, the effects of which are impossible to assess at the moment. However, it is the view of Siemens Bank that the positive economic signs currently outweigh other considerations and this will also have a positive impact on the banking sector.

Siemens Bank believes that the demand for project finance and capital spending loans will be sustained at a high level. Given the Bank's broad diversification of business across industries and regions, Siemens Bank also believes that it will be able to offset any adverse effects in some markets with the effect from positive developments in other markets. Furthermore, the Bank predicts that, particularly in emerging markets, the demand for equipment capital investment and therefore also for loan financing can be divorced from economic trends, at least to a certain extent. Overall, Siemens Bank continues to identify attractive growth opportunities in its lending and guarantee business.

Business performance of Siemens Bank in 2015

At the beginning of the 2015 fiscal year, Siemens Bank, as part of the Siemens Financial Services Division, reorganized the lending and guarantee business in line with the new divisional structure of Siemens AG:

- PSE – Project & Structured Finance Power, Oil & Gas
- PSI – Project & Structured Finance Energy Management, Mobility and Industry
- PSH – Project & Structured Finance Healthcare and Leveraged Finance

Siemens Bank intends to use this reorganization to implement further optimization of its sales structures.

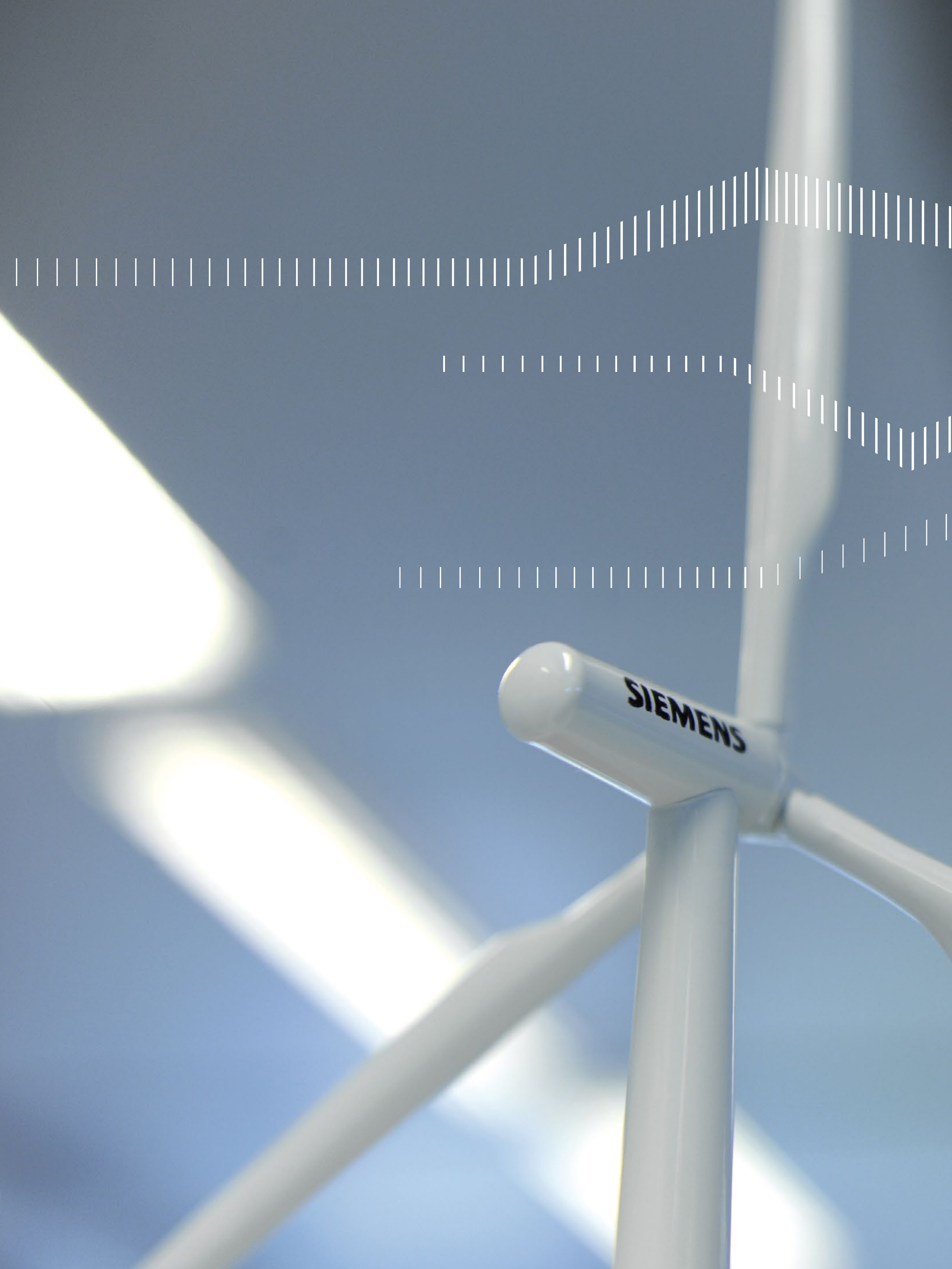
Despite economic uncertainties, Siemens Bank is expecting to be able to successfully continue on the path of profitable growth during the next few fiscal year. In particular, the Bank also intends to benefit from its presence in London's financial center, from the expansion of its business activities in Asia, and from the income derived from the credit portfolio it has built up to date. At the same time, however, the Bank will continue to avoid excessive credit risk.

Siemens Bank therefore expects the short-term deposits from Siemens AG and its subsidiaries, and the associated loans and advances to banks and credit balances with central banks resulting from money market transactions, to remain at a relatively low level. The Bank believes that the effect on business volume and net interest income will be more than offset by the impact from very significant growth in loans and advances to customers as part of its lending and guarantee business. The planned expansion of business activities in Asia, especially the further development of the credit portfolio with Asian customers, is also expected to generate a positive impact on the Bank's net interest income.

Siemens Bank expects that its funding in the 2015 fiscal year will continue to be provided largely by Siemens AG and its subsidiaries. In addition, given the forecast strong increase in net interest income, risk management and processing services will continue to become less important as a pillar of the business and component of the Bank's earnings.

Siemens Bank believes that some of the positive developments will be offset in the results of operations by the need to recognize greater allowances for losses on loans and advances compared with prior years. This increase in allowances is necessary because of the economic uncertainties. In addition, the further expansion of business activities and growth-driven capital spending by the Bank on infrastructure will lead to a further (but disproportionately low) increase in general administration expenses.

Overall, Siemens Bank is expecting to be able to continue achieving a significantly high increase in its net operating income before tax over the next fiscal year based on the strong rise in net interest income.


SIEMENS

Annual financial statements

of Siemens Bank GmbH, Munich,
for the fiscal year ended September 30, 2014 (in €)

Income statement

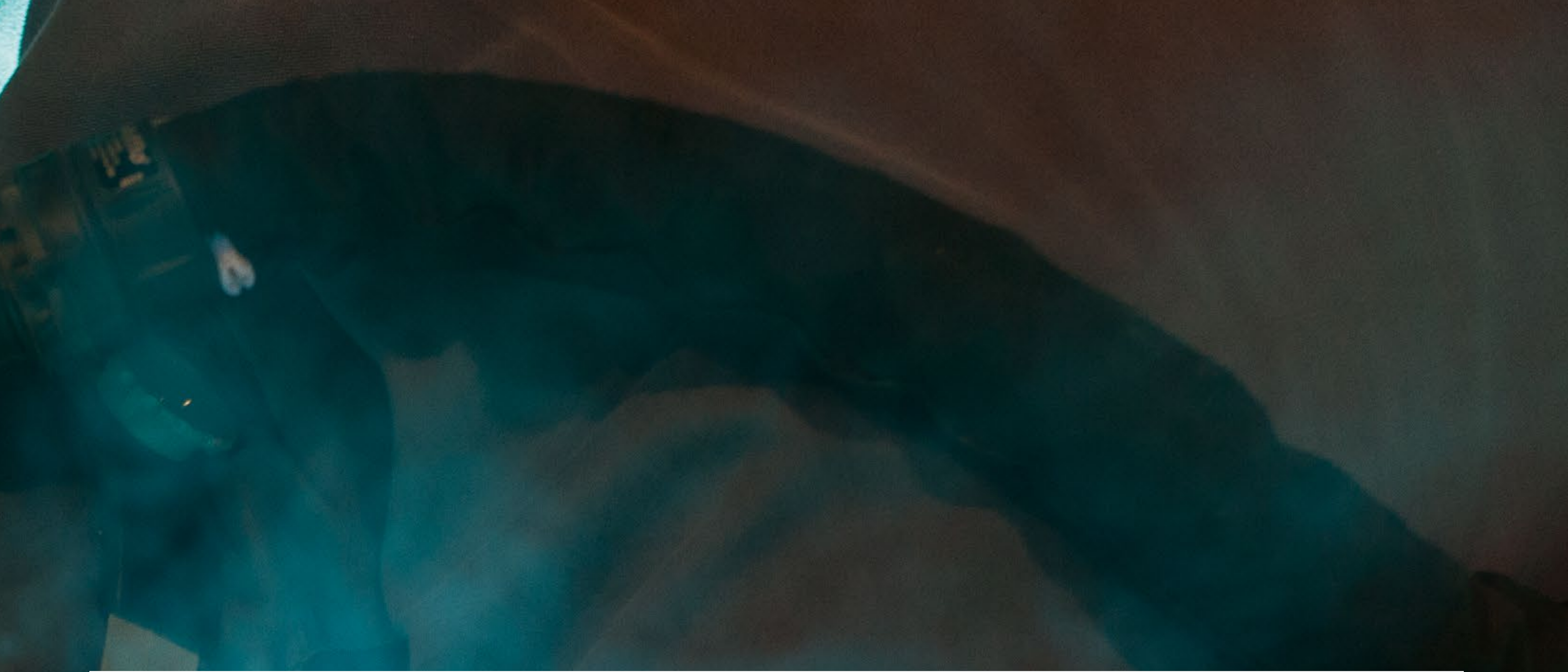
**of Siemens Bank GmbH, Munich,
for the fiscal year ended September 30, 2014 (€'000)**

		Note		2014	2013
1	**Interest income from**	**1**			
	a) Lending and money market business		136,994		107,147
	b) Fixed-income securities and registered debt		318		97
				137,312	**107,244**
2	**Interest expense**			**-45,905**	**-31,668**
3	**Fee and commission income**	**1, 2**		**15,316**	**17,376**
4	**Fee and commission expense**			**-1,117**	**-289**
5	**Other operating income**	**1, 3**		**7,236**	**73**
6	**General administration expenses**				
	a) Personnel expenses				
	aa) Wages and salaries		-23,882		-20,332
	ab) Social security, post-employment and other employee benefit costs		-4,032		-3,473
	of which: in respect of pensions -€2,388 thsd. (2013: -€1,988 thsd.)			-27,913	-23,805
	b) Other administrative expenses			-17,743	-14,572
				-45,657	**-38,377**
7	**Amortization and write-downs of intangible fixed assets, depreciation and write-downs of property and equipment**			**-17**	**-21**
8	**Other operating expenses**	**3**		**-774**	**-1,347**
9	**Write-downs of receivables and certain securities, and additions to provisions in the lending business**			**-16,475**	**-12,755**
10	**Result from ordinary activities**			**49,920**	**40,236**
11	**Taxes on income**	**4**		**-4,517**	**-309**
	of which: deferred taxes €0 thsd. (2013: €0 thsd.)				
12	**Other taxes not included under item 8**			**-2**	**-1**
13	**Profit transferred under a profit-and-loss transfer agreement**	**5**		**-45,401**	**-39,926**
14	**Net income for the year**			**0**	**0**
15	**Distributable profit**			**0**	**0**

Balance sheet

of Siemens Bank GmbH, Munich, as of September 30, 2014 (€'000)

Assets		Note		2014	2013
1	**Cash and cash equivalents**				
	Credit balances with central banks		11,288		2,121,265
	of which: with Deutsche Bundesbank €11,288 thsd. (Sep. 30, 2013: €2,121,265 thsd.)				
				11,288	**2,121,265**
2	**Loans and advances to banks**	6			
	a) Repayable on demand		37,723		27,812
	b) Other loans and advances		194,001		354,920
				231,723	**382,732**
3	**Loans and advances to customers**	7		4,251,703	**3,083,611**
	of which: secured by charge over real estate €0 thsd. (Sep. 30, 2013: €0 thsd.)				
	of which: loans to public-sector entities €180,487 thsd. (Sep. 30, 2013: €60,078 thsd.)				
4	**Bonds and other fixed-income securities**	8			
	Commercial paper from other issuers		24,998		24,994
	of which: eligible as collateral at Deutsche Bundesbank €0 thsd. (Sep. 30, 2013: €22,199 thsd.)				
				24,998	**24,994**
5	**Property and equipment**	9		47	**45**
6	**Other assets**	10		1,050	**1,359**
7	**Prepaid expenses**	11		2,561	**690**
Total assets		18		4,523,370	5,614,696



	Equity and liabilities	Note		2014	2013
1	**Amounts due to banks**	**12**			
	With agreed maturity or notice period		20,001		65,943
				20,001	**65,943**
2	**Amounts due to customers**	**13**			
	Other liabilities				
	a) Repayable on demand		2,459		1,408
	b) With agreed maturity or notice period		3,433,034		4,980,789
				3,435,494	**4,982,197**
3	**Other liabilities**	**14**		**3,385**	**1,941**
4	**Deferred income**	**11**		**47,949**	**53,619**
5	**Provisions**	**15, 16**			
	a) Provisions for pensions and similar obligations		6,624		5,502
	b) Provisions for taxes		2,370		181
	b) Other provisions		7,548		5,313
				16,543	**10,996**
6	**Equity**	**17**			
	a) Subscribed capital		5,000		5,000
	b) Capital reserves		995,000		495,000
				1,000,000	**500,000**
	Total equity and liabilities	**18**		**4,523,370**	**5,614,696**
1	**Contingent liabilities**				
	Liabilities under guarantees and warranty agreements	19		26,653	10,793
2	**Other obligations**				
	Irrevocable loan commitments	19		782,469	606,072

Notes to the financial statements

of Siemens Bank GmbH, Munich,
for the fiscal year ended September 30, 2014

(translation of the German original)

Notes to the financial statements

of Siemens Bank GmbH, Munich, for the fiscal year ended September 30, 2014

Basis of accounting in the annual financial statements of Siemens Bank

The annual financial statements of Siemens Bank for the fiscal year ended September 30, 2014, 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 of HGB. For the purposes of clarity, amounts are shown in thousands of euros (€'000).

Pursuant to section 265 (8) of HGB, any line items on the standard RechKredV forms that are not relevant to Siemens Bank and have therefore remained blank have been omitted and the numbering has been adjusted accordingly to improve readability.

Accounting policies

Loans and advances to banks and customers

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

Pursuant to section 11 of 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 allowances for losses on loans and advances include both specific loan loss allowances and general allowances related to latent credit risks. Specific loan loss allowances reflect individual counterparty defaults expected in connection with a loan exposure at risk of default. General allowances are based on borrower credit ratings, rating-related probability of default, and the proportion of loss in the event of a default.

Bonds and other fixed-income securities

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

Property and equipment

Property and equipment is measured at cost and reduced by depreciation on a straight-line basis over the estimated useful life of the property and equipment concerned. Movable fixed assets that can be used independently and whose individual cost is up to and including €150 are immediately expensed. In the case of additions with an individual cost of more than €150 but no more than €410, 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 of RechKredV, interest obligations in connection with deposits from banks or amounts due to customers are reported under amounts due to customers, but are not included in the maturity-structure tables of assets and liabilities.

Provisions for pensions

Pension benefit obligations are measured at the settlement amount determined in accordance with the actuarial projected unit credit method based on biometric probabilities. Estimated future increases in salaries and pensions are factored into the calculation of the present value of the defined benefit obligation. The discount rate used in the calculation is based on the relevant rate published by Deutsche Bundesbank for a maturity of 15 years.

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

Netting of assets and liabilities, income and expense

Assets whose sole purpose is to satisfy pension obligations or residual partial retirement obligations (and cannot therefore 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 obligation, this obligation is reported under provisions. If the value of assets exceeds the obligations, the amount is reported as an excess of plan assets over pension liabilities.

Provisions for taxes and other provisions

Provisions are recognized in accordance with tax law to cover current taxes. No amounts are recognized for deferred tax assets.

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 measurement at the lower of cost and market – that no losses will be incurred in the future from contracted interest-rate positions. This evidence takes the form of a comparison between the net present value for the banking book and its net carrying amount. If the net carrying amount is greater than the net present value, there is a requirement for the recognition of a corresponding provision. As was the case as of September 30, 2013, there was no requirement as of September 30, 2014, for the recognition of a provision for onerous contracts pursuant to section 340a of HGB in conjunction with section 249 (1) sentence 1 of HGB.

Currency translation

Amounts denominated in foreign currency are translated at the middle rate on the balance sheet date in accordance with section 256a of HGB in conjunction with section 340h of 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. Non-current assets and liabilities that are not subject to specific coverage are measured in accordance with the HGB imparity principle (whereby unrealized losses are recognized, but unrealized gains are not recognized).

Assets denominated in foreign currency are documented as specifically covered if they are matched by a countervailing liability or derivative in the currency concerned. Maturity mismatches are deemed to be permissible as long as there is the possibility 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.

Income statement disclosures

1 Geographical breakdown

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

%	2014	2013
Germany	19	25
Elsewhere	81	75

2 Fee and commission income

Fee and commission income is derived from the following services:

(€'000)	2014	2013
Risk management services for affiliated companies	15,144	13,643
Risk management services and credit business services for third parties	172	3,733
Total	**15,316**	**17,376**

3 Other operating income and expense

Other operating income comprises income from currency translation and from the sale of receivables. In the 2013 fiscal year, this item also included income from the reversal of provisions. Income arising from currency translation amounted to €6,949 thousand (2013: expense of €1,028 thousand).

Other operating expense largely 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 €506 thousand (2013: €300 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 current withholding taxes.

The London branch of Siemens Bank forms part of the income tax group of Siemens plc, Frimley (United Kingdom). Taxes on income therefore also include provisions for current income tax in the United Kingdom.

Siemens Bank did not need to recognize any deferred tax liabilities as of September 30, 2014. Siemens Bank does not recognize any deferred tax assets. Deferred taxes arise largely from measurement differences between the HGB financial statements and the tax base in respect of certain loans, advances, receivables, and provisions.

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 HGB is transferred to Siemens AG.

Balance sheet disclosures

6 Loans and advances to banks

(€'000)	2014	2013
Loans and advances to banks with maturities of	**231,723**	**382,725**
(excluding loan loss allowances and interest accruals)		
up to and including 3 months	231,723	382,725
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

7 Loans and advances to customers

(€'000)	2014	2013
Loans and advances to customers with maturities of	**4,271,060**	**3,102,108**
(excluding loan loss allowances and interest accruals)		
up to and including 3 months	158,433	122,467
more than 3 months and up to 1 year	546,643	273,996
more than 1 year and up to 5 years	1,654,256	1,381,119
more than 5 years	1,911,728	1,324,526

Loans and advances to customers include loans and advances to affiliated companies with a value of €304,587 thousand (September 30, 2013: €221,516 thousand).

8 Bonds and other fixed-income securities

This item comprises unlisted commercial paper with a residual maturity of less than one year.

9 Statement of changes in fixed assets

The changes in property and equipment over the 2014 fiscal year were as follows:

(€'000)	Cost				
	Oct. 1, 2013	Additions	Transfers	Disposals	Sep. 30, 2014
Property and equipment	**64**	**19**	**0**	**-5**	**78**
Office furniture and equipment	64	19	0	-5	78

(€'000)	Depreciation and write-downs			Carrying amount	
	Cumulative	of which curr. yr.	of which disposals	2014	2013
Property and equipment	**-31**	**-17**	**-5**	**47**	**45**
Office furniture and equipment	-31	-17	-5	47	45

The changes in property and equipment in the 2013 fiscal year had been as follows:

(€'000)	Cost				
	Oct. 1, 2012	Additions	Transfers	Disposals	Sep. 30, 2013
Property and equipment	**43**	**35**	**0**	**-15**	**64**
Office furniture and equipment	43	35	0	-15	64

(€'000)	Depreciation and write-downs			Carrying amount	
	Cumulative	of which curr. yr.	of which disposals	2013	2012
Property and equipment	**-19**	**-21**	**15**	**45**	**30**
Office furniture and equipment	-19	-21	15	45	30

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

10 Other assets

Other assets largely comprise receivables arising from the provision of services to third parties and subsidiaries of Siemens AG, other open receivables, and currency translation adjustments.

11 Prepaid expenses and deferred income

(€'000)	2014	2013
Prepaid expenses	**2,561**	**690**
Premium on loans and advances	2,357	623
Other prepaid expenses	204	67
Deferred income	**47,949**	**53,619**
Discount on loans and advances	28,785	41,218
Other deferred income	19,164	12,401

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

12 Amounts due to banks

(€'000)	2014	2013
Amounts due to banks	**20,000**	**65,902**
(excluding interest accruals)		
up to and including 3 months	0	65,902
more than 3 months and up to 1 year	0	0
more than 1 year and up to 5 years	20,000	0
more than 5 years	0	0

Amounts due to banks are due to Deutsche Bundesbank. The entire amount is secured by Siemens Bank's loan assets pledged as collateral with Deutsche Bundesbank.

13 Amounts due to customers

(€'000)	2014	2013
Amounts due to customers with maturities of	**3,426,576**	**4,978,515**
(excluding interest accruals)		
up to and including 3 months	360,759	2,515,274
more than 3 months and up to 1 year	240,623	697,510
more than 1 year and up to 5 years	1,888,804	1,085,238
more than 5 years	936,389	680,493

Of the amount due to customers, €3,418,466 thousand (September 30, 2013: €4,914,688 thousand) is accounted for by transactions with affiliated companies. Within this total, an amount of €3,234,339 thousand is due to the shareholder (September 30, 2013: €3,951,895 thousand).

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

14 Other liabilities

The breakdown of other liabilities is as follows:

(€'000)	2014	2013
Other liabilities	**3,385**	**1,941**
Withholding tax to be paid	1,747	1,097
VAT liabilities and other items	925	402
Personnel-related obligations	713	442

15 Provisions for pensions and similar obligations

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

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

In addition, Siemens Bank offers employees the option of participating in a voluntary deferred compensation scheme. The salary components deferred under this scheme are invested in fund units. The fund units are only used to cover the resulting pension obligations and are protected against claims from other creditors. These assets, which had a fair value of €558 thousand as of September 30, 2014 (September 30, 2013: €448 thousand) and a cost value of €478 thousand (September 30, 2013: €410 thousand), are therefore offset against the pension obligations. Income and expenses each in the amount of €110 thousand (September 30, 2013: €74 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. Contributions are paid into this pension program in the same way as those to the BSAV. Where employees have been given further fixed pension entitlements in 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. Of the assets assigned to the Trust, which had a fair value of €853 thousand as at September 30, 2014 (September 30, 2013: €710 thousand) an amount equivalent to the amount of the pension obligations is therefore offset against the pension obligations.

As of September 30, 2014, the total settlement amount for the pension provisions amounted to €8,002 thousand (September 30, 2013: €6,657 thousand), of which €1,378 thousand (September 30, 2013: €1,155 thousand) was accounted for by indirect obligations. The actuarial measurement of the settlement amount was based on a number of variables including a discount rate of 4.70% (September 30, 2013: 4.92%) and a pension growth rate of 1.75% per annum (September 30, 2013: 1.75%).

Given the structure of the main pension schemes, measurement assumptions relating to increases in wages and salaries including career trends are of no material significance in determining pension obligations at Siemens Bank. The Heubeck 2005G modified mortality tables are used to determine the probability of death.

16 Other provisions

The changes in other provisions over the 2014 fiscal year were as follows:

(€'000)	Oct. 1, 2013	Transferred	Utilized
Other provisions	**5,313**	**1**	**-4,402**
of which with maturities up to 1 year	4,770	22	-189

(€'000)	Reversed	New	Sep. 30, 2014
Other provisions	**-333**	**7.269**	**7.848**
of which with maturities up to 1 year	-330	858	5.131

The changes in other provisions in the 2013 fiscal year had been as follows:

(€'000)	Oct. 1, 2012	Transferred	Utilized
Other provisions	**5,317**	**25**	**-4,599**
of which with maturities up to 1 year	5,059	14	-4,599

(€'000)	Reversed	New	Sep. 30, 2013
Other provisions	**-72**	**4,642**	**5,313**
of which with maturities up to 1 year	-72	4,368	4,770

Transfers mainly result from provisions connected with personnel-related obligations taken over in the course of transfers of employees.

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

(€'000)	2014	2013
Other provisions	**7,848**	**5,313**
Personnel-related provisions	7,456	5,138
Provisions for year-end costs	393	175

17 Equity

Siemens AG, the sole shareholder in Siemens Bank, added an amount of €500,000 thousand in cash to the capital reserves on December 6, 2013. The changes in equity over the 2014 fiscal year were therefore as follows:

(€'000)	Oct. 1, 2013	Additions	Sep. 30, 2014
Equity			
Subscribed capital	5,000	0	5,000
Capital reserves	495,000	500,000	995,000
Distributable profit	0	0	0
	500.000	**500.000**	**1.000.000**

There had been no changes to the components of equity in the 2013 fiscal year.

18 Assets and liabilities denominated in foreign currency

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

(€'000)	2014	2013
Assets denominated in foreign currency	**2,381,998**	**1,591,465**
Liabilities denominated in foreign currency	**2,347,426**	**1,617,346**

Other disclosures

19 Off-balance-sheet transactions

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

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.

20 Derivative financial instruments

Siemens Bank only enters into derivative financial instruments to cover risks arising in connection with its banking business. As far as possible, currency-related transactions are accounted for as part of the specific coverage arrangements. Interest-rate-related transactions are measured and recognized using the HGB imparity principle because no designation to accounting groups („Bewertungseinheiten") as defined by HGB can be demonstrated.

Siemens Bank held the following derivatives as of September 30, 2014:

	Nominal				
	2014			Total amount	
(€'000)	≤ 1 year	>1 – 5 years	> 5 years	2014	2013
Interest-rate derivatives					
OTC interest-rate swaps	230,000	0	0	230,000	60,000
Embedded floors	0	0	13,000	13,000	0
Currency derivatives					
OTC swaps	31,000	0	0	31,000	73,533

The fair values of the derivatives as of September 30, 2014, were as follows:

	Fair values			
	Positive		Negative	
(€'000)	2014	2013	2014	2013
Interest-rate derivatives				
OTC interest-rate swaps	0	0	-357	-66
Embedded floors	371	0	0	0
Currency derivatives				
OTC swaps	109	466	-29	-16

Siemens Bank only uses generally accepted valuation methods and measurement parameters observable in the market to measure derivative financial instruments.

21 Other financial obligations

Siemens Bank purchases services from affiliated companies and third parties under the terms of outsourcing and purchasing agreements. The following financial obligations are expected for the 2015 fiscal year as a result of these service relationships:

(€'000)	2015
To affiliated companies	**16,220**
To third parties	**1,166**
	17,386

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

22 Employees

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

Employees	2014	2013
Siemens Bank GmbH	**178.9**	**168.7**
Munich branch (and Erlangen)	**146.7**	**137.1**
Employment contracts	152	141
of which part-time	15	13
London branch	**31.9**	**31.6**
Employment contracts	32	32
of which part-time	1	1

23 Members of the management board and supervisory board

The general meeting has appointed the following members of the management board:

- Roland Chalons-Browne, Chairman and Chief Executive Officer of Siemens Bank
- Dr. Ingeborg Hampl, member of the management board and Chief Risk Officer of Siemens Bank
- Dr. Peter Rathgeb, member of the management board and Chief Financial Officer of Siemens Bank

Roland Chalons-Browne did not receive any remuneration for his activities in the 2014 fiscal year.

The general meeting has set up a supervisory board with the following members:

- Dr. Peter Moritz, member of the management board of Siemens Financial Services GmbH, Munich, and Chief Financial Officer of the Cross-Sector Business Financial Services of Siemens AG
- Hans-Peter Rupprecht, Chief Executive Officer of Siemens Treasury GmbH, Munich, and Corporate Treasurer of Siemens AG.

Dr. Peter Moritz was elected chairman and Hans-Peter Rupprecht deputy chairman of the supervisory board. The members of the supervisory board did not receive any remuneration for their activities in the 2014 fiscal year.

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

- Chief Executive Officer of Siemens Financial Services GmbH, Munich
- Member of the supervisory board of RISICOM Rückversicherung AG, Grünwald
- Non-executive director of Siemens Financial Services Inc., Iselin, New Jersey, United States

24 Membership of a corporate group

The annual financial statements of Siemens Bank are included in the consolidated financial statements of Siemens AG, Berlin and Munich. The consolidated financial statements of Siemens AG are submitted for publication in the electronic German Federal Gazette. Pursuant to section 285 no. 21 of HGB, Siemens Bank did not enter into any transactions in the year under review with related parties on terms that were other than on an arm's length basis.

The consolidated financial statements of Siemens AG include disclosures on the total fees paid to the independent auditors pursuant to section 285 no. 17 of HGB.

Munich, December 17, 2014

The Management Board

Roland Chalons-Browne Dr. Ingeborg Hampl Dr. Peter Rathgeb

Audit opinion

We have issued the following opinion on the financial statements and management report:

“We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Siemens Bank GmbH, Munich, for the fiscal year from October 1, 2013, to September 30, 2014. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company’s management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 of HGB [“Handelsgesetzbuch”: “German Commercial Code”] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company’s position and suitably presents the opportunities and risks of future development.”

Munich, January 13, 2015

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Barth	Adam
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

(translation of the German original)

Disclosures pursuant to section 26a par. 1 s. 2 of the German Banking Act (KWG)

Annex to the annual financial statements of Siemens Bank GmbH, Munich, for the fiscal year ended September 30, 2014

Siemens Bank maintained the following branches in member states of the European Union as of September 30, 2014:

- Germany: Siemens Bank GmbH, Otto-Hahn-Ring 6, 81739 Munich
- United Kingdom: Siemens Bank GmbH, London Branch, 13/14 Appold Street, London, EC2A 2NB

The breakdown of the activities at these branches is as follows:

	Germany		UK	
(* €'000)	2014	2013	2014	2013
Business type	Lending and guarantee business Deposit business Fee business		Lending and guarantee business Fee business	
Figures				
Sales revenue *	72,974	52,810	38,807	38,579
Profit before tax *	27,062	12,513	22,856	27,722
Taxes on profit *	-242	-309	-4,275	0
Government assistance received *	0	0	0	0
Number of employees on payroll	147.3	144.8	33.7	30.7

Sales revenue is defined as the aggregation of net interest income, net fee and commission income and other income and expenses, net.

Siemens Bank does not have any branches in countries outside the European Union.

(translation of the German original)

Publisher:

Siemens Bank GmbH
80200 Munich, Germany
info.siemens-bank@siemens.com
Phone +49 89 636-25311
Phone +49 89 636-30049
marketing.sfs@siemens.com

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.

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