SIEMENS

Ingenuity for life

Siemens Bank GmbH

Annual Report 2018

siemens.com/finance

Editorial

Dear Readers,

Siemens Bank is looking back on an extremely successful fiscal year once again. This result is that much more impressive when you consider the challenging market conditions under which the Bank did business last year.

A regulatory environment with ever-increasing requirements, the first signs of an economic downturn in the eurozone and a wave of uncertainty caused by Brexit, global trade wars and political hot spots: This was the mélange of challenges that Siemens Bank had to face.

Siemens Bank has positioned itself well in this market. The key factor here was the considerable growth produced in the loan portfolio. This growth was generated primarily by the extremely dynamic business in Asia. This gave a significant boost to the operating result before risk contingency.

The Bank is also committed to the goal of sustainable company management. Its risk management played a significant role in this regard during the past fiscal year: The Bank was selective once again last year in the new business it took on. In addition, it increased provisions for existing risks in light of current uncertainties once again.

But this focus on risk management did not cause the Bank to lose sight of the opportunities offered by dynamic new business.

There were a number of notable and newsworthy financing projects once again during the reporting year. Siemens Bank took part in several investment financing projects for offshore wind farms in the United Kingdom. One project worthy of special mention is the largest individual financing opportunity to date in the market for a wind farm in the North Sea off the eastern coast of England. Siemens Gamesa Renewable Energy’s 7-MW turbines with a rotor diameter of 154 meters are being used in the project.

Electric rate risks in this project are largely eliminated thanks to the contract for difference regime offered by the United Kingdom. As a result, the wind farm will have a stable base of revenue.

Siemens Bank also played a major role in the winning of a contract to build, operate and maintain an educational campus planned for the North Train Station area in Vienna, a multifunctional learning facility with kindergartens, schools and leisure time activities for nearly 1,000 children. During this bidding process, a financing solution was drawn up with the help of partners. Siemens Building Technologies, the consortium leader, then used the solution to gain a decisive edge in the competition. The scope of the project includes all project management in the construction phase, the delivery of the building equipment and technology as well as facility management.

The performance of Siemens Bank in fiscal 2018 that has been described here demonstrates clearly once again that the Bank is fully capable of supporting and fostering the business opportunities of Siemens AG and its subsidiaries while meeting the financing needs of current and potential customers. This is certainly not only the case for today, but also for future years – thanks to the Bank's correct strategy and improved risk contingency: The Group can rely on an important success factor in its business today and in the future.

Siemens Bank GmbH
Executive Management Committee

Roland Chalons-Browne
Managing Director

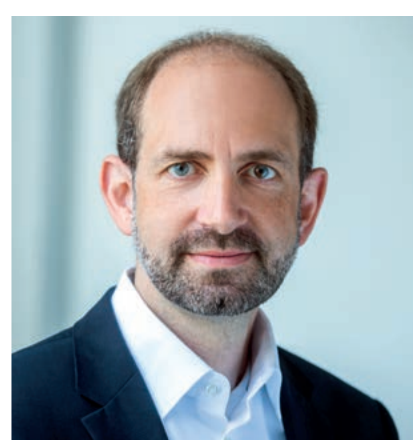
Chairman
Executive Management Committee

Dr. Ingeborg Hampl
Managing Director

Member
Executive Management Committee

Dr. Christoph Baumgarten

Member
Executive Management Committee



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

Management report

of Siemens Bank GmbH, Munich,
for the period from October 1, 2017, to September 30, 2018

1 Business performance overview

1.1 Business activities of Siemens Bank GmbH

Siemens Bank GmbH, Munich (hereinafter: Siemens Bank) is part of the Division Financial Services in the Siemens Group. Through the business activities of Siemens Bank, Siemens AG, Berlin and Munich (hereinafter: Siemens AG) as the sole shareholder of Siemens Bank broadened the range of sales-financing products in its Division 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, corporate loans, project finance, promissory note loans, and revolving loan facilities. Siemens Bank operates in both the primary market and the secondary market for loans. Guarantees are issued in particular in the context of project financing, but currently play a subordinated role.

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

» Fee business: Key resources for managing financial risk and processing financial transactions in the Siemens Group are pooled within Siemens Bank. These resources not only support the 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 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 further economic recovery expected in last year's outlook actually occurred in the 2018 fiscal year, also because a number of identified risk factors did not materialize to an extent that would have had a significant negative impact on the economic situation. On the one hand, this recovery has a broad territorial basis and, on the other hand, there are still no signs of economic overheating.

Nevertheless, economic development was, as expected, heterogeneous in the various relevant markets. According to data published by the OECD, gross domestic product in OECD countries rose in the 2018 calendar year by 0.5% in the first quarter and by 0.6% in the second quarter, in both cases in comparison with the previous quarter (last year: 0.6% and 0.7% respectively). In the U.S., gross domestic product continued to increase, with growth accelerating again due in part to the effect of the U.S. tax reform after a dip in the first calendar quarter. Also, growth rates in Asia – including major emerging markets such as China and India – were relatively high, however, still lagged behind the very high growth rates of the past. Nevertheless, Asia was the region with the strongest economic growth worldwide. A number of factors of uncertainty had a dampening effect on growth, such as doubts about the stability of the Chinese banking sector or political conflicts.

According to the German Federal Ministry of Economics, the gross domestic product in the eurozone grew moderately but at a constant rate of 0.4% in the first and second calendar quarters compared to the respective previous quarter, indicating a stable economic trend in the eurozone. However, this growth remains significantly lower than growth rates in other regions of the world. Fundamental structural and political uncertainties, such as the large portfolio of problem loans held by banks in Italy and Greece or political uncertainties in Italy and Spain, continue to dampen growth. According to the Office for National Statistics, gross domestic product outside the eurozone rose by 0.2% and 0.4% respectively, in the first and second quarters; these rates show a marked slowdown in growth momentum – not least as a consequence of the great economic uncertainty resulting from the UK's imminent withdrawal from the European Union (Brexit). Further uncertainty results from the current economic and political development in Turkey.

According to Siemens Bank's overall assessment, a further recovery in economic development within and outside the eurozone could be observed in fiscal 2018, the extent of which was in line with the previous year's forecast. This positive development also had a positive impact on Siemens Bank's business and thus on its financial position and results of operations.

Nevertheless, Siemens Bank continues to observe intense competition in the market for project and investment financing, as interest rates remain at historically low levels and the lending market is very liquid, particularly in the eurozone, despite the beginning turnaround in interest rates in the United States. Siemens Bank sees a similar situation regarding market and competition in some Asian markets. The high level of liquidity in the market and the emergence of new competitors beyond the traditional banking segment as investors in project financing and corporate financing in the form of insurance companies, pension funds or alternative investment funds means that companies are taking advantage of favorable capital market conditions to refinance through bonds or to replace existing financing with more favorable lending terms, thereby further increasing the pressure on margins on the lending markets. As a result, the level of early terminations of existing financing remains high, but is currently below last year's level and Siemens Bank's expectations.

Although the planning cycles that are relevant for the financing of projects and equipment investments usually have longer terms and are therefore less dependent on economic trends, Siemens Bank continues to observe very high competitive pressure and thus a very challenging market environment. In this environment, it remains difficult to generate attractive risk-return profiles. Nevertheless, the broadly based geographical positioning at Siemens Bank enabled the Bank to offset weak trends in individual markets or industries by exploiting opportunities in other markets.

1.3 Regulatory developments

Under the Basel III framework, which was drawn up at international level in response to the financial crisis of the last decade, regulatory requirements for banks were redrafted and tightened up with the objective of improving the resilience of the overall system in the event of a crisis by higher capital requirements to cover risk and greater liquidity buffers for the banks.

At the 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 (CRD IV-Umsetzungsgesetz), which involved far-reaching changes to national legal provisions in Germany.

The resulting regulatory requirements for Siemens Bank have been implemented in recent years. The following topics were in the foreground in the last fiscal year:

In August 2017, the revised version of the Remuneration Ordinance for Institutions (Institutsvergütungsverordnung) came into force. This Ordinance constitutes another regulation aimed at securing banking stability and includes minimum requirements to bank remuneration systems that are intended to prevent detrimental incentives to take excessive risks. The Ordinance was implemented in the 2018 fiscal year.

Another important project during the last fiscal year was the implementation of the statistical regulation on the introduction of a harmonized granular credit reporting on the level of the European System of Central Banks in accordance with Decision 2014/6 of the European Central Bank (AnaCredit). The reporting requirements were implemented in a multi-stage process. The first full report was made on the September 30, 2018, reporting date.

In October 2017, the German Federal Financial Supervisory Authority (BaFin) published a revised version of the Minimum Requirements for Risk Management (MaRisk) following a lengthy consultation phase. The revised version above all includes the recommendations of the Basel Committee on Banking Supervision on the principles for risk data aggregation and risk reporting (BCBS 239). In addition, the revised version contains, in particular, extended requirements for the management of outsourcing risks, specifications relating to risk culture and additional new rules for the management of IT risks that were also further substantiated via the Banking Regulatory Requirements for IT (BAIT). The implementation project was successfully completed in the past fiscal year.

In the new fiscal year, the focus will be on adjustments to the reporting system in particular. The requirements for national million-euro credit reporting will be changed as of January 2019. Also necessary by January 2019 is the implementation of the EBA Guideline 2017/15. This changes the requirements for determining both the control-based and the economic Groups of Connected Clients (GCC). FinRep also demands compliance with amended reporting requirements and forms in accordance with EU Regulation 2017/1538 from January 2019 onwards.

As of December 31, 2018, extended reporting obligations are required within the scope of Own Funds reporting with regard to "Prudent Valuation".

The new CRR II and CRD V are expected to be adopted by the EU Commission during the 2019 fiscal year. These include the final implementation of the requirements of the Basel Committee on Banking Supervision regarding the leverage ratio, the net stable funding ratio and total loss-absorbing capacity. The new regulations are expected to be applicable two years after CRR II comes into force.

At the end of 2017, the Basel Committee on Banking Supervision also adopted the Basel III framework agreement. The implementation of the central elements of the modified credit, market and operational risk calculation elements will be the focus of the forthcoming multi-stage, multi-year legislative process for implementing the framework.

In order to be able to implement the requirements of the reform packages promptly, Siemens Bank will set up corresponding projects in the new fiscal year.

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

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

In May 2018, MAS published the final "Revised MAS 610/1003" notice. The monthly report 1003 serves MAS as a statistical basis for the balance sheet evaluation and is extended substantially under the new standard. The notice will be applicable from October 2020 onward, with a prior six-month mandatory test phase. Siemens Bank will set up a project in the new fiscal year to implement the requirements.

1.4 Business performance

The 2018 fiscal year was characterized primarily by two factors: The significant growth in the lending business – particularly in Asia – had a positive impact on profitability before risk allowances and led to a significant increase in net interest income in particular. This positive development dominated the continuing challenging economic and regulatory environment as well as the high liquidity in key core markets and the associated pressure on interest margins and achievable returns. At the same time, risk allowances for credit risks increased significantly, which was attributable not only to the development of business volume and a slightly higher volume of problem loans but also to higher allowances for latent credit risks.

Due to the growth in business volume and the profitability before risk allowances, and despite the higher allowances for credit risks, the management is satisfied with the positive business development and, in particular, the very good development of the net operating income before risk allowances in the 2018 fiscal year. This positive development exceeded Siemens Bank's expectations.

Net assets

Siemens Bank's net assets developed very positively in fiscal 2018 due to strong growth in its core lending business.

Following an increase by 11% in the previous year, the business volume in the **core lending business segment** (including guarantees) again grew significantly by 28% in the 2018 fiscal year.

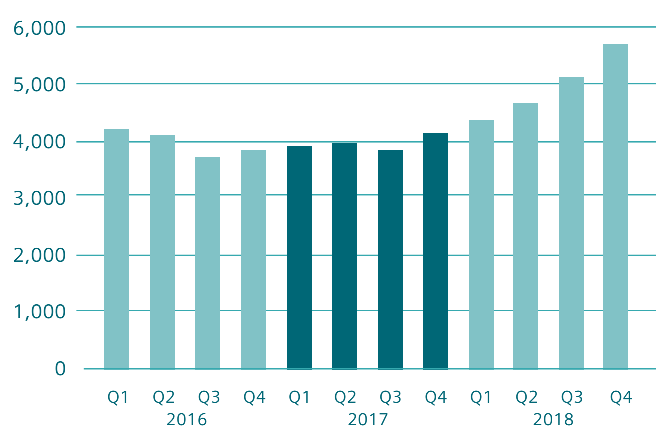


Figure 1: Development of loans and advances to customers in the lending business (€ million)

Early repayments by customers who replaced existing financing in key markets due to persistently low interest rates and the very selective risk-taking by Siemens Bank, which offered an attractive risk-return profile in the current uncertain market environment, reduced the lending portfolio into the third quarter of the 2016 fiscal year, among other factors.

The growth recorded since the last quarter of the 2016 fiscal year reflects, on the one hand, the beginning economic recovery of key Siemens Bank markets. On the other hand, the opening of the Singapore branch on March 1, 2017, has had a positive impact on growth. Since the last quarter of the 2017 fiscal year, and especially in 2018, the branch office has contributed significantly to the growth of this lending portfolio as well as to the further regional diversification of Siemens Bank. This very positive development significantly exceeded Siemens Bank's expectations and is also reflected in the persistently high level of irrevocable lending commitments of €936 million (previous year: €976 million). Contingent liabilities from sureties and guarantee agreements did not exist at the end of the fiscal year and were only of minor significance for Siemens Bank in previous years.

The focus of this lending portfolio in fiscal 2018, as in the previous year, was on activities in the areas of energy (renewables, energy management, oil & gas), infrastructure and health. In addition to project financing, Siemens Bank has a corporate lending portfolio.

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

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

In the **deposit and treasury business**, the Group financing portfolio, which forms an integral part of the loans and advances to customers, has decreased from €369 million to €335 million since the end of the previous fiscal year. The provision of collateral in cash means that Siemens Bank does not bear any credit risk in connection with this business. Compared with the lending business, this lending portfolio clearly is of minor significance within the business model of Siemens Bank as a whole.

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

Intra-year fluctuations during the 2018 fiscal year were due to maturities of liquidity-related investments and the decline in short-term deposits. Compared with the previous year, the portfolio of highly liquid assets for purposes of liquidity reserve and liquidity control declined only slightly by 2% (previous year: increase by 7%). Overall, this was in line with Siemens Bank's expectations.

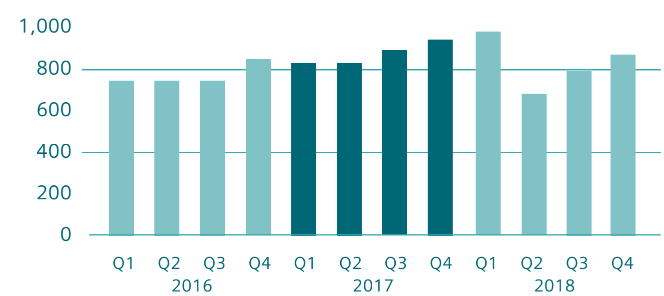


Figure 2: Change in liquidity-related investments in the deposit and treasury business (€ million)

Financial position

The business activities of Siemens Bank are largely refinanced by deposits and equity. Here, 14% (previous year: 18%) of the recorded business volume of Siemens Bank is financed by equity. Siemens AG as the sole shareholder of Siemens Bank has paid in a share capital of €5,000 thousand (previous year: €5,000 thousand) and capital provisions in the form of other payments into equity amounting to €995,000 thousand (previous year: €995,000 thousand).

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

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

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

Furthermore, Siemens Bank has not made any substantial capital investments or financial investments in the 2018 fiscal year.

Results of operations

On the one hand, the 2018 financial year was characterized by a strong expansion of business activities in Asia, which was reflected in equal measure in the growth of net interest income, net fee and commission income and general administrative expenses. On the other hand, Siemens Bank significantly increased its allowances for losses on loans and advances in order to take greater account of a slightly higher volume of problem loans and, in particular, latent risks in the loan portfolio. However, allowances for losses on loans and advances remained significantly below the level of the 2016 fiscal year.

Overall, Siemens Bank was able to continue the positive development of the 2017 fiscal year, posting its highest net operating income before risk allowances since the Bank's formation.

(€ million)	2018	2017	2016
Net interest income	135.5	116.8	113.7
Net fee and commission income	25.8	22.8	19.2
General administrative expenses	-62.0	-55.7	-53.3
Other income and expenses, net	-0.5	-2.8	-3.3
Net operating income before allowances for losses on loans and advances	**98.8**	**81.1**	**76.3**
Allowances for losses on loans and advances	-21.9	-7.3	-30.4
Net operating income	**76.9**	**73.8**	**45.9**

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 refinancing-related interest expense on the other. Interest terms also reflect the effect of inflation. The net interest margin contribution from the lending business generates most of the net interest income. Liquidity investments in the deposit and treasury business normally generate lower interest margins. As the portfolio in the core lending business grew constantly and significantly in the 2018 fiscal year, net interest income also grew significantly, as expected. However, net interest income is also heavily dependent on the volatility of exchange rates during the year, as a significant portion of the portfolio is denominated in USD, GBP and AUD. Overall, Siemens Bank was able to continue to generate attractive risk-return profiles in the lending business, as, also against the background of a persistently low interest level in important core markets, new loan transactions were only entered into selectively, and the pursued business strategy was not purely volume-driven. The disproportionately weak development in net interest income in relation to the development of business volume during the previous year was caused mainly by the growth of the lending business towards the end of the fiscal year, but also by currency effects from the USD and GBP portfolios.

In spite of a further growth by 13% (previous year: 19%), **net fee and commission income** still is of minor significance for Siemens Bank's results of operations. Siemens Bank earns fee and commission income primarily by providing risk-management and processing services for Siemens AG and its subsidiaries. The costs incurred in providing the services are reported under general administrative expenses. The consistent increase in this component of earnings resulted from the expansion, in particular of risk management services for the Financial Services activities of the Siemens Group, and exceeded Siemens Bank's expectations.

An almost constant portion of 60% (previous year: 58%) of **general administrative expenses** at Siemens Bank is attributable to personnel expenses. Siemens Bank employees are not only responsible for carrying out the banking operations as such, but also for providing risk-management and processing services for Siemens AG, its subsidiaries and selected third parties. The other administrative expenses are largely accounted for by the purchase of services from Siemens AG and its subsidiaries as well as from third parties. This purchase of services also includes all IT services required by Siemens Bank. The constant increase in general administrative expenses during the last three fiscal years is due to the continuous expansion of the Siemens Bank business activities and the opening of the Singapore branch office in the 2017 fiscal year as well as salary increases and higher costs for some service providers. Applying strict cost discipline, Siemens Bank was able to limit the effects of the additional structural costs caused by the new Singapore branch, so that net interest and net fee and commission income increased at a significantly higher rate than general administrative expenses. The development of general administrative expenses was thus in line with Siemens Bank's expectations.

Other net operating income is for the most part determined by income from currency valuations. The impact of currency effects on the Bank's profitability is in particular limited through the refinancing of loans in foreign currencies in the same currency. As in the previous year, Siemens Bank therefore reports a slightly negative currency income for fiscal 2018 in relation to the overall portfolio.

Allowances for losses on loans and advances increased significantly in the 2018 fiscal year. However, the increase was slightly below Siemens Bank's expectations. This was due on the one hand to the significantly higher volume of business in the core lending business and a slightly higher volume of problem loans. During the 2018 fiscal year, Siemens Bank, on the other hand, further developed and refined its provisioning methodology for latent credit risks in order to take greater account of expected losses and default rates. Due to the adjusted valuation methodology, allowances for latent credit risks were significantly increased, thus also taking into account the much higher level of uncertainty in Siemens Bank's key markets. In the previous year, the Bank was able to release provisions formed in previous years for a number of loan transactions because the economic situation of borrowers had improved significantly and also because Siemens Bank had disposed of high-risk loan commitments at favorable terms. During the 2016 fiscal year, on the other hand, Siemens Bank had had to significantly increase allowances for individual loan transactions that depend on the oil price in order to take account of the risks involved with parts of this industry. Due to the continuing high credit quality of Siemens Bank's loan portfolio, reported allowances for losses on loans and advances overall are still moderate for large parts of the lending portfolio, also in the 2018 fiscal year.

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 previous fiscal year, the net operating income before tax reported here is Siemens Bank's key **financial performance indicator**. The slight increase in this performance indicator was largely in line with Siemens Bank's expectations, as the significantly improved net interest income was largely offset by the increase in allowances for losses on loans and advances.

Siemens Bank also determines the return on risk-adjusted capital as an additional financial performance indicator. Here, the net operating income after standardized income taxes and before additions to and/or dissolution of provisions for general banking risks (in fiscal 2018: €57.9 million) is considered in relation to the average economic capital, which amounts to €362.6 million in fiscal 2018. As of September 30, 2018, this indicator had a value of 16% (previous year: 17.3%), and was thus within the target range of between 15% and 20% for the 2018 fiscal year. The slight year-on-year decline is attributable to higher allowances for credit risks.

2 Risk report

2.1 Risk strategy

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

2.1.1 Objective

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

Siemens Bank follows a clearly defined process for developing its risk strategy. The risk strategy is updated if triggered by a particular requirement, or otherwise at regular intervals, 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 results of the risk inventory are used as a basis for the determination of the objectives and measures relating to the risk strategy that are monitored as part of the overall risk report.

2.1.2 Regulatory requirements

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

2.2 Risk management and organization

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

2.2.1 Organizational structure

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

The general frameworks for internal capital management, management and monitoring of individual types of risk and for the methods, processes and limit structure within Siemens Bank are 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. This strict segregation also applies to the London and Singapore branches. The authority rules and regulations specify that the back office may not be overruled.

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

Committees

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

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

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

Risk monitoring

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

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

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

Risk reporting

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

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

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

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

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

The reporting of liquidity risk is performed monthly and through the daily liquidity gap profile. Refinancing risk is also reported daily. Risk reporting is focused on the economic capital requirement for the refinancing risk taken on by the Bank, on monitoring the operational liquidity and refinancing limits and on the regulatory key indicators relating to the liquidity coverage ratio and the minimum liquid assets.

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

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

2.2.2 Internal control system for accounting processes

Objective

The objective of external financial reporting is both to determine the measurement of dividends and to provide information in the proper manner and by the specified deadline 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 Finance department is responsible for external financial reporting and for the internal control system related to accounting processes. This department reports to the CFO of Siemens Bank.

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

Procedures

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

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

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

Further development and quality assurance

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

Individual training plans have been defined for the employees in the Finance department. These plans are revised and updated each year.

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

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

The costs of economic capital adequacy requirements are factored into pricing and are integrated into performance measurement. Key figures in terms of pricing are economic value added (EVA) and return on equity (RoE) based on economic capital (return on risk-adjusted capital, or RoRaC).

Internal capital adequacy

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

Siemens Bank applies a creditor-protection perspective ("gone concern" method) in its internal management and limitation of risk. The gone concern method is based on a comprehensive risk approach combined with a high confidence level, the primary objective of which is to provide effective protection for creditors. The confidence level is in this case based on Siemens Bank's current target rating of A/A-. This target rating means the target probability of surviving is 99.95% with a risk horizon of one year. Despite using the gone concern method, Siemens Bank also follows the objectives of the going concern approach. Once per quarter, Siemens Bank prepares a calculation based on the going concern method with a risk horizon of one year and a confidence level of 96.5% for credit risk and of 95.0% for market, business and refinancing risk. Under the going concern approach, operational risk is also calculated using the basic indicator approach. Prepayment risk is calculated according to the gone concern perspective. For the deduction items of the pillar 1 items, the capital buffer requirements (pursuant to section 10c and 10d KWG) are always taken into account for one year in the future.

Siemens Bank determines its risk-taking potential with a value-based approach in accordance with the circular Regulatory Evaluation of Internal Risk Adequacy Concepts (Aufsichtliche Beurteilung bankinterner Risikotragfähigkeitskonzepte) 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 for the portfolio are also taken into account in the calculation. If the result is a negative amount, the core risk-taking potential is reduced by that amount. If the result is a positive amount, the amount is reduced by a risk buffer and is included in the internal risk adequacy calculation as additional risk-taking potential.

As of September 30, 2018, the risk-taking potential of Siemens Bank consisted of the following:

(€ million)	2018	2017
Tier 1 capital	1,000.0	1,000.0
Tier 2 capital	40.0	30.9
Additional risk-taking potential	356.4	538.0
Total risk-taking potential	**1,396.4**	**1,568.9**

Figure 4: Composition of the risk-taking potential

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

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

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

» Default risk

» Market risk

» Liquidity risk (in the sense of risk of insolvency)

» Funding risk

» Operational risk

Additionally, the following nonmaterial risks are quantified separately.

» Prepayment risk

» Business risk in terms of net present value margin risk

These risks, together with the other nonmaterial risks, are considered under the stress scenarios as these are mainly associated with the additional risk-taking potential.

As of September 30, 2018, the allocation of the risk-taking potential and the risk capital requirements are as follows:

(€ million)	2018		2017	
Risk-taking potential in stress scenario	**1,356.0**		**1,545.1**	
of which additional risk-taking potential in stress scenario	316.0		514.2	
of which core risk-taking potential	1,040.0		1,030.9	
	Risk-taking potential	**Required risk capital**	**Risk-taking potential**	**Required risk capital**
Risk capital for operational risk	25.0	20.5	20.0	19.2
Risk capital for default risk	600.0	364.0	600.0	315.4
Risk capital for market risk	20.0	9.4	20.0	1.5
Risk capital for refinancing risk	30.0	14.5	30.0	18.2
Normal case	**675.0**	**408.5**	**670.0**	**354.3**
Risk capital for operational risk		20.9		20.8
Risk capital for default risk		547.9		470.3
Risk capital for market risk		13.8		2.5
Risk capital for refinancing risk		31.7		35.1
Risk capital for business risk		58.5		129.4
Risk capital for prepayment risk		7.7		10.3
Buffer for other nonmaterial risks		20.0		20.0
Stress case total	**1,356.0**	**700.6**	**1,545.1**	**688.4**

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

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

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

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

Utilization of the risk-taking potential in the stress scenario increased from €688.4 million to €700.6 million during the fiscal year, while the risk-taking potential under stress fell by €189.1 million. The highest utilization of the risk-taking potential was recorded on the balance sheet date at the end of the fiscal year.

The Management Board is very satisfied with risk development during the completed fiscal year, as the risk capital requirements in the normal scenario increased at a rate below the expansion of lending receivables. For fiscal year 2019, Siemens Bank is forecasting that, based on the business and risk strategy, internal capital adequacy will be assured at all times both in the normal case and if the stress scenarios are taken into account.

Stress testing

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

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

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

Regulatory capital adequacy

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

As of September 30, 2018, the composition of regulatory capital at Siemens Bank was as follows:

(€ million)	2018	2017
Tier 1 Capital		
Paid-up capital instruments	5.0	5.0
Adjustments due to the requirements for prudent valuation	-0.6	-1.0
Capital reserves and other eligible reserves	995.0	995.0
	999.4	**999.0**
Tier 2 Capital		
Total tier 2 capital before capital adjustment items pursuant to section 10 (2b) KWG	40.0	30.9
Adjustment items for tier 2 capital pursuant to section 10 (6) and (6a) KWG	0.0	0.0
	40.0	**30.9**
Total modified available capital pursuant to section 10 (1d) KWG	**1,039.4**	**1,029.9**

Figure 6: Composition of regulatory capital according to the final financial statements as of September 30, 2018

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

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

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

(€ million)	2018	2017
1. Default risk		
Standardized credit risk approach		
Central governments	0.0	0.0
Institutions	0.4	0.8
Corporates	483.8	398.1
Retail business	0.1	0.0
Other	0.3	0.3
Overdues	0.6	0.0
Sum of default risk	**485.1**	**399.2**
2. Market risk		
Standardized approach	0.0	2.4
- of which: currency risks	0.0	2.4
Sum of market risk	**0.0**	**2.4**
3. Operational risk		
Basic indicator approach	20.5	19.1
Sum of operational risk	**20.5**	**19.1**
Total capital requirements	**505.6**	**420.7**

Figure 7: Regulatory capital requirements as of September 30, 2018

Siemens Bank must ensure a total capital ratio of 11.06% according to CRR in conjunction with the relevant provisions of the KWG. The total capital ratio includes the capital preservation buffer and the anti-cyclical buffer, which must be furnished from common equity tier 1 capital. The total capital ratio is the ratio of the total amount from risk-weighted assets to Siemens Bank's regulatory capital. As of September 30, 2018, the total capital ratio (Pillar I) for Siemens Bank was 16.44% according to the final financial statements (previous year: 19.74% according to the approved financial statements). As Siemens Bank's equity comprises predominantly tier 1 capital components, the total capital ratio is only slightly higher than the tier 1 capital ratio (Pillar I) of 15.81% according to the final financial statements (previous year, according to the approved financial statements: 18.98%). Both ratios are therefore markedly higher than the total capital ratio of 11.06% specified by the regulatory requirements.

The difference between the required regulatory capital of €505.6 million (previous year: €420.7 million) and the required economic risk capital in the normal scenario of €408.5 million (previous year: €354.3 million) and in the stress scenario of €700.6 million (previous year: €688.4 million) is the result of Siemens Bank using its own risk models in the calculation of the required economic capital.

2.3 Default risk

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

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

Credit risk

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

Counterparty risk

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

Issuer risk

Issuer risk is the risk of deterioration in the credit rating of an issuer or the risk that an issuer will default, either partially or in full. On September 30, 2018, Siemens Bank was only exposed to issuer risk positions through short-term bonds (treasury bills) with maturities of less than one year.

2.3.1 Risk classification

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

Siemens Bank has defined 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 therefore consists of a total of 19 different credit rating categories overall. The rating categories can be reconciled with external credit ratings using a conversion table. If credit ratings are available from an external provider in any particular instance, these external ratings can be used as an input for a credit rating procedure. All external credit ratings used by the Bank in its risk classification procedures are obtained exclusively from S&P, Fitch or Moody's. Even if an external credit rating is used, Siemens Bank still carries out a credit rating analysis using its own knowledge and information. Credit rating classes 1 to 7 are used for unproblematic customers.

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

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

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

2.3.2 Portfolio management and modeling

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

Expected loss

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

Unexpected loss

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

Country risk

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

Backtesting

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

Pricing

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

Early detection of risk

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

Stress testing

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

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

2.3.3 Risk mitigation techniques

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

Types of collateral

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

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

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

Collateral management

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

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

2.3.4 Risk allowances

Siemens Bank recognizes individual allowances for loans classified as subject to problem obligor management. These allowances are intended to cover the expected loss after taking into account any expected proceeds from the realized collateral. Siemens Bank also recognizes general loan loss provisions to cover the latent credit risk in the portfolio of loans and advances. In this case, rating-related loan loss provision rates are applied to the unsecured exposure. The general loan loss provisions include rating- and maturity-dependent 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 loan loss provision recognized by the Bank also covers the assumed latent country risk. The assumptions that underlie the valuations are continuously monitored and validated.

As of September 30, 2018, Siemens Bank had total recognized individual and general loan loss provisions of €30.9 million (previous year: €17.7 million). The increase is attributable to individual loan loss provisions in the corporate lending portfolio and to increased provisions for latent credit risks. Individual loan loss provisions include transaction-specific assessments of future cash flows, probabilities of default and expected loss rates, taking into account collateral and, where applicable, restructuring effects. The increased provisions for latent credit risks are attributable to the increased volume of business, the current portfolio rating structure and the enhanced and refined methodology for measuring latent credit risk.

2.3.5 Analysis of the lending portfolio as of September 30, 2018

The required economic capital for default risk as of September 30, 2018, was €364.0 million. The allocated risk-taking potential was €600.0 million. The amount of capital required is largely determined by the lending portfolio volume, borrower credit ratings, collateralization and borrower industrial sectors and countries. The increase in risk capital requirements compared with the previous year was caused mainly by increased exposure. Here, the increase in lending portfolio volume significantly exceeded the increase in capital requirements, as the average credit quality improved during the completed fiscal year.

The focus of the lending portfolio on corporate and project financing is aligned with the Bank's business strategy.

As of September 30, 2018, the lending portfolio, based on the lending business as well as on Treasury investments associated with the management of liquidity-risk and asset-liability management (without short-term money market investments and treasury bills), had a nominal exposure of €6,573.5 million (previous year: €5,399.0 million), of which €6,052.5 million (previous year: €4,869.6 million) was attributable to corporate and project financing and €521.1 million (previous year: €529.4 million) to public-sector borrowers.

The main emphasis is on the energy, infrastructure and healthcare sectors.

A breakdown of the Siemens Bank lending portfolio by credit rating as of September 30, 2018, is shown in the following table:

(€ million)	2018	2017
Rating category	Outstanding	Outstanding
1	65.7	61.1
2+	0.0	0.0
2	76.8	63.2
2-	603.7	569.9
3+	184.5	142.5
3	24.2	0.6
3-	77.4	85.2
4+	244.1	301.5
4-	520.3	264.6
5+	495.2	814.4
5-	1,467.0	744.5
6+	901.5	917.5
6-	752.6	663.7
7+	678.8	342.2
7-	363.7	292.3
8+	36.2	94.0
8-	57.8	32.7
9	19.1	9.3
10	5.0	0.0
Total	6,573.5	5,399.0

Figure 8: Lending portfolio by rating category

As of September 30, 2018, the investment-grade exposure (rating 1 through 5+) totaled €2,291.9 million (previous year: €2,302.9 million) and the non-investment-grade exposure (rating 5- through 10) totaled €4,281.6 million (previous year: €3,096.1 million). There was a total of €19.1 million of credit exposure with a high likelihood of default (rating 9) as of September 30, 2018 (previous year: €9.3 million). Exposure to default in the lending portfolio (rating 10) was €5.0 million (previous year: €0 million). Non-collateralized loans are in general only granted to customers with an investment-grade rating.

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

(€ million)	2018	2017
	Out-standing	Out-standing
EU excluding the eurozone	1,719.1	1,557.8
Germany	1,204.8	1,156.6
Eurozone excluding Germany	1,014.8	740.5
Asia	972.2	635.1
Europe excluding the EU	835.0	826.1
Australia/Oceania	553.0	317.7
America	195.1	0.0
Africa	79.4	165.3
Total	**6,573.5**	**5,399.0**

Figure 9: Breakdown of lending portfolio by geographical area

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

2.4 Liquidity risk

Siemens Bank only takes on liquidity risk to the extent that this is necessary to implement its business strategy. The Bank is only permitted to take on 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 (ALM Policy) and its associated guidelines. The ALM Policy is a comprehensive description of procedures, tools, roles and responsibilities for all persons involved in the process. The policy is reviewed at least once a year to ensure that it is up to date.

2.4.1 Risk management

Liquidity risk (in the sense of risk of insolvency)

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

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

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

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

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

Limit structure

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

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

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

2.4.2 Modeling

Modeling

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

Siemens Bank uses an internal liquidity-value-at-risk model (LVaR) to measure refinancing risk. In this context, the calculation logic was adapted in the course of the year. The new methodology now tends to generate higher value-at-risk values for short-term liquidity gaps and lower values for long-term gaps. Economic capital is determined by calculating the value at risk with a confidence level of 99.95% and a risk horizon of one year. Operational value-at-risk limits are then derived from this calculation. If the operational value-at-risk limits are determined and monitored using a different confidence level or risk horizon, the Bank ensures that there is always reconciliation to internal capital adequacy.

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

Liquidity buffer

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

Stress testing

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

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

Backtesting

The modeling assumptions regarding future cash flows included in the liquidity gap profile and the assumptions used in the calculation of the LVaR are regularly validated by 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, 2018

The liquidity gap profile comprising deterministic, optional and modeled cash flows shows negative cumulative cash flows in one-year to six-year time brackets as of September 30, 2018. All cumulative cash flows up to nine months are positive. All operative liquidity and refinancing limits were being complied with at all times. The optional and modeled cash flows are included in these figures and are already adjusted for risk. Siemens Bank maintains a liquidity buffer of assets eligible as collateral with central banks and deposits with central banks. As of September 30, 2018, this buffer amounted to €706.2 million (previous year: €767.2 million).

Within strict limits, deposits are also used for refinancing credit business. Given the largely maturity-matched refinancing of the lending business, Siemens Bank had, as of September 28, 2018, a liquidity value at risk of €14.5 million (previous year: €18.2 million) with a confidence level of 99.95% and a risk horizon of one year because of the negative cumulative cash flows in the medium to long-term liquidity structure. This capital requirement was contrasted by an allocated risk-taking potential of €30.0 million. The utilization of the allocated risk-taking potential did not exceed the allocation at any point during the fiscal year.

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

2.5 Market risk

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

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

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

2.5.1 Risk management

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

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

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

2.5.2 Modeling

Risk model

Siemens Bank uses 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 reconciliation to internal 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 with the calculated value at risk. If the hypothetical P&L exceeds the calculated value at risk more than seven times within a year, Siemens Bank makes adjustments to the modeling. This may involve either a general modification of the model or the introduction of a penalty factor.

Stress testing

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

2.5.3 Market risk analysis as of September 30, 2018

As of September 30, 2018, the required economic capital for market risk was €9.4 million (previous year: €1.5 million). The increase in risk capital requirements compared with the previous year is primarily attributable to more active ALM management and an increased exposure in Singapore dollars from the Singapore branch at the end of the year. This capital requirement was contrasted by an allocated risk-taking potential of €20.0 million. 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 (OpRisk) is defined as the risk of losses resulting from inappropriate or failed processes or technical systems or inappropriate behavior or failures on the part of individuals or resulting from external events. This definition includes legal and reputational risk.

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

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

2.6.1 Risk classification and management

Siemens Bank conducts an annual self-assessment in which it systematically collects and analyzes data on operational risk. The various risks are then prioritized based on the risk potential determined in the analysis. Thereafter, the Bank initiates appropriate measures 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 OpRisk manager monitors the implementation of such action.

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

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

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

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

2.6.2 Risk reporting

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

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

2.6.3 Operational risk analysis as of September 30, 2018

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, 2018 was €20.5 million (previous year: €19.2 million). The required capital is based on the regulatory calculation specified in the CRR and is adjusted yearly by the Management Board based on the final financial statements.

2.7 Business and strategic risk

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

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

Business risk in terms of net present value 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 net present value margin risk is not possible through a limit structure; therefore, the Management Board manages this risk on a bank-wide level. An essential driver behind the development of business risk was the EUR/USD and EUR/GBP exchange rate volatility.

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

3 Other information

Siemens Bank maintains branches abroad in London, United Kingdom, and in Singapore. These branches operate in the lending business and, to a limited extent, also in the fee business. In addition to the headquarters in Munich, the office at the London banking center was established as a second essential pillar for the acquisition of new business in Europe, while the Singapore branch office, founded in 2017, serves to generate new business in Asia and Australia and to establish local lending risk management. There are no other branches abroad.

As in the previous year, Siemens Bank was involved in a large number of Group-wide programs and initiatives in 2018 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 gender diversity and to support employees in various private and professional situations and help them meet the challenges in both their working and private lives and

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

As in the previous year, no nonfinancial performance indicators were used during the 2018 fiscal year to manage the business.

An extremely important factor in Siemens Bank's business performance was the re-confirmation of its credit rating by Moody's credit rating agency in February 2018. In its credit opinion, Moody's affirmed 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

The project group Joint Economic Forecast of the Federal Ministry of Economics and Energy assumes in its economic forecast for the fall of 2018 that the upward trend will lose momentum and that the global economic climate will become rougher. In contrast to this, the International Monetary Fund (IMF) continues to expect that the global economy will grow by 3.0% in 2018 and 2019 (after a growth rate of 3.7% in 2017).

The forecasts unanimously assume that developments will continue to be heterogeneous in Siemens Bank's key core markets. Growth in Europe will continue to be subdued, and gross domestic product will grow at rates below 2% on average. This also applies to the United Kingdom, which is expected to leave the European Union in 2019. Significantly higher growth rates, albeit lower than in the past, are expected for Asia and Australia. Various forecasts expect average growth in gross domestic product in the region of around 5%.

All forecasts stress a multitude of uncertainty factors and risks for the further economic development: The uncertain consequences of Brexit and the pending political agreement between the European Union and the United Kingdom, ongoing structural problems in the Italian banking sector and political uncertainties in Turkey and Italy, for example, are weighing on economic activity in Europe. Volatile oil prices as a consequence of the new U.S. sanctions against Iran or the impending collapse of Venezuela, the interest rate turnaround initiated in the United States, but in particular the U.S. government's strongly protectionist tendencies and the resulting global trade conflicts are threatening the global economy. It is also becoming apparent that regulatory requirements for banks within and outside the European Union will develop differently.

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

Opportunities and risks in the 2019 fiscal year

Siemens Bank shares the expectation that the economic upward trend will weaken in the 2019 fiscal year and that the stimulating influence of the economy on business development will diminish. However, Siemens Bank believes that the demand for project finance and investment loans will remain on a level that is at least similar to that of the previous years, as the planning cycles for infrastructure projects and project financing are usually longer. With the increased presence in Asia and Australia through the Singapore branch, the Bank furthermore sees additional development and growth opportunities in the further expansion of its business activities in this region. Positive momentum is also expected to result from the consistent continuation of the lending business alignment towards attractive risk-return profiles and also from the income from the lending portfolio created so far. Here, as in the past, the Bank intends to avoid exposure to excessive credit risk through a diversification with regard to regions and industries, and through consistent risk management.

Nevertheless, a series of elements of uncertainty and risk remain that Siemens Bank believes may lead to significant negative deviations from the current forecasts. The arduous progress of the negotiations on Britain's withdrawal from the EU (Brexit), the uncertain further political and economic development in Turkey or the dispute over Iran's nuclear program are just some examples of geopolitical areas of conflict.

In order to analyze and manage the effects of Brexit, Siemens Bank has initiated a separate project. Risks can result directly from regulatory restrictions in the UK itself or, for example, from EU requirements for conducting EU business from the UK. Brexit may indirectly lead to increased credit risks if Siemens Bank customers are adversely affected by Brexit. Due to the limited business model of the London branch, its regional diversification and the broad operational base in both London and Germany, Siemens Bank does not expect Brexit to have material impact on the Bank's business model and profitability.

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

However, given the Bank's broad diversification of business across industries and regions and its consistent and comprehensive risk management system, Siemens Bank continues to believe that it will be able to offset any adverse or negative effects and uncertainties in some markets – at least in part – with positive effects in other markets.

Business performance of Siemens Bank in 2019

After a challenging but successful 2018 fiscal year, Siemens Bank expects further significant growth of its lending portfolio for 2019, and, associated with this, a significant increase of its profitability before risk allowances.

For the coming 2019 fiscal year, Siemens Bank expects the liquidity investments included in the loans and advances to banks, customers and central banks, and, associated with this, the short-term deposits of Siemens AG and its subsidiaries to remain on a comparable level. However, Siemens Bank believes that further significant growth in loans and advances to customers in the lending business, which, however, is forecast to be significantly below the growth rates of the 2018 fiscal year, will have stronger influence on business volume and net interest income. The planned further expansion of business activities in Asia from the Singapore location, especially the further development of the lending portfolio with Asian customers, is expected to generate a positive impact on the Bank's net interest income. This, together with other factors, is expected to lead to pronounced growth in net interest income. However, Siemens Bank sees risks in forecasting the future development of net interest income as the interest margins that can be generated continue to be under pressure due to high liquidity in the lending markets. Siemens Bank expects that its refinancing in the 2019 fiscal year will continue to be provided largely by Siemens AG and its subsidiaries.

Siemens Bank plans to offer additional risk management services to Siemens AG and its subsidiaries in the 2019 fiscal year. Therefore, the Bank expects the business pillar risk management and processing services, and thus net fee and commission income, to continue to grow and clearly exceed last year's level. However, the contribution to earnings will remain of subordinate significance.

Administrative expenses relate firstly to the core lending business and the deposit and treasury business and thus to banking business in the narrower sense of the term. On the other hand, general administrative expenses relate to the rendering of services, in particular for Siemens AG and its subsidiaries. For the banking business in the narrower sense, Siemens Bank intends to again achieve an only relatively slight increase in general administrative expenses in relation to business development for the 2019 fiscal year through strict cost discipline. This part of general administrative expenses is expected to only grow as a result of general wage and price developments. In particular, general administrative expenses are planned to only grow at a disproportionally low rate compared with the scope of business activity and the growth in net interest income. Nevertheless, Siemens Bank expects an increase in general administrative expenses due to the establishment of the new services offered in the business segment risk management and processing services. As a result, Siemens Bank expects a significant increase in general administrative expenses overall, exceeding general wage and cost increases.

Even though Siemens Bank will continue to only selectively enter into credit risk and does not intend to compensate for the current margin pressure on the credit markets by increasing risk exposure, the Bank believes that the continuing high level of uncertainty in key markets will result in a higher absolute level of allowances for losses on loans and advances compared with the 2018 fiscal year. This development will be supported both by the growth in business volume and by the risk structure of the portfolio. Siemens Bank expects the increase in allowances for losses on loans and advances to slow again compared to the 2018 fiscal year.

Overall, Siemens Bank expects that the positive effects from the growth of the lending portfolio and fee commission income will more than offset the increase in general administrative expenses and increased risk allowances, so that net operating income before income tax will again increase significantly and more strongly than in fiscal 2018. For the return on risk-adjusted capital, Siemens Bank once more expects a target range of between 15% and 20%. However, as in previous years, the major uncertainty with regard to both performance indicators – also due to the Siemens Bank business model – is the development in provisions for loans and advances.

Annual financial statements

Income statement

of Siemens Bank GmbH, Munich, for the fiscal year from October 1, 2017, to September 30, 2018 (€'000)

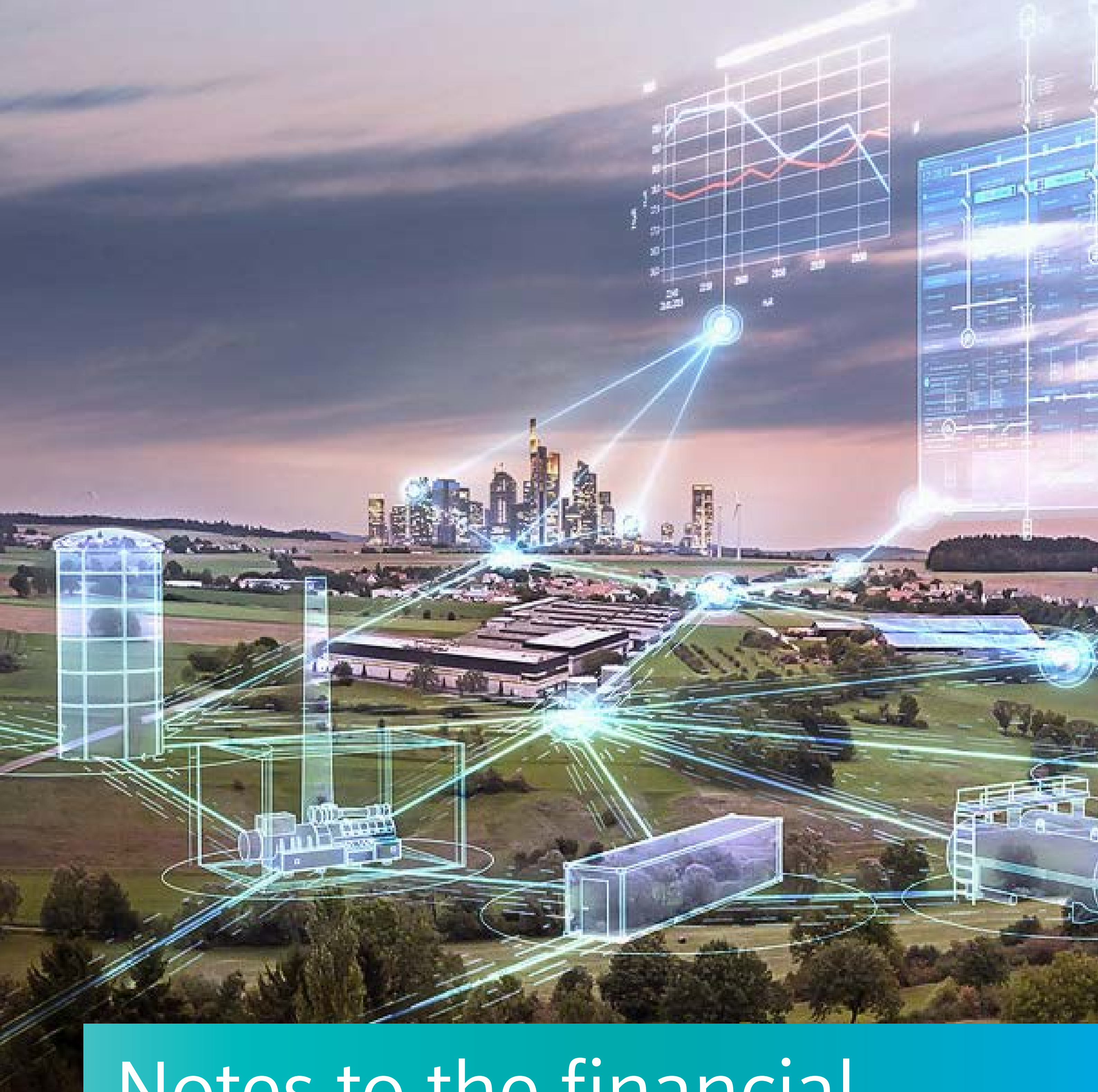
		Notes to the financial statements		2018	2017
1	**Interest income from**	1			
	a) Lending and money market business		212,717		170,927
	of which negative interest income: €2,307 thousand (previous year: €678 thousand)				
	b) Fixed-income securities and registered debt		708		423
				213,425	**171,350**
2	**Interest expense**	1		**-77,917**	**-54,564**
	of which positive interest expenses: €4,979 thousand (previous year: €3,162 thousand)				
3	**Fee and commission income**	1, 2		**26,002**	**23,023**
4	**Fee and commission expense**			**-153**	**-158**
5	**Other operating income**	1, 3		**1,382**	**0**
6	**General administration expenses**				
	a) Personnel expenses				
	aa) Wages and salaries		-32,138		-27,846
	ab) Social security and expenses for pension and support obligations		-4,771		-4,503
	of which in respect of pensions: €(2,731) thousand (previous year: €(2,663) thousand)			-36,909	-32,349
	b) other administrative expenses			-25,052	-23,378
				-61,961	**-55,727**
7	**Depreciation and write-downs on intangible assets and property and equipment**			**-91**	**-32**
8	**Other operating expenses**	3		**-1,923**	**-2,795**
9	**Write-downs of receivables and certain securities and additions to provisions in the lending business**			**-21,851**	**-7,280**
10	**Income from ordinary operations**			**76,913**	**73,817**
11	**Taxes on income**	4		**-7,346**	**-8,736**
	of which deferred taxes: €0 thousand (previous year: €0 thousand)				
12	**Other taxes, if not included under item 8**			**-537**	**-7**
13	**Profit transferred under a profit-and-loss transfer agreement**	5		**-69,030**	**-65,074**
14	**Annual net profit**			**0**	**0**
15	**Distributable profit**			**0**	**0**

Balance sheet

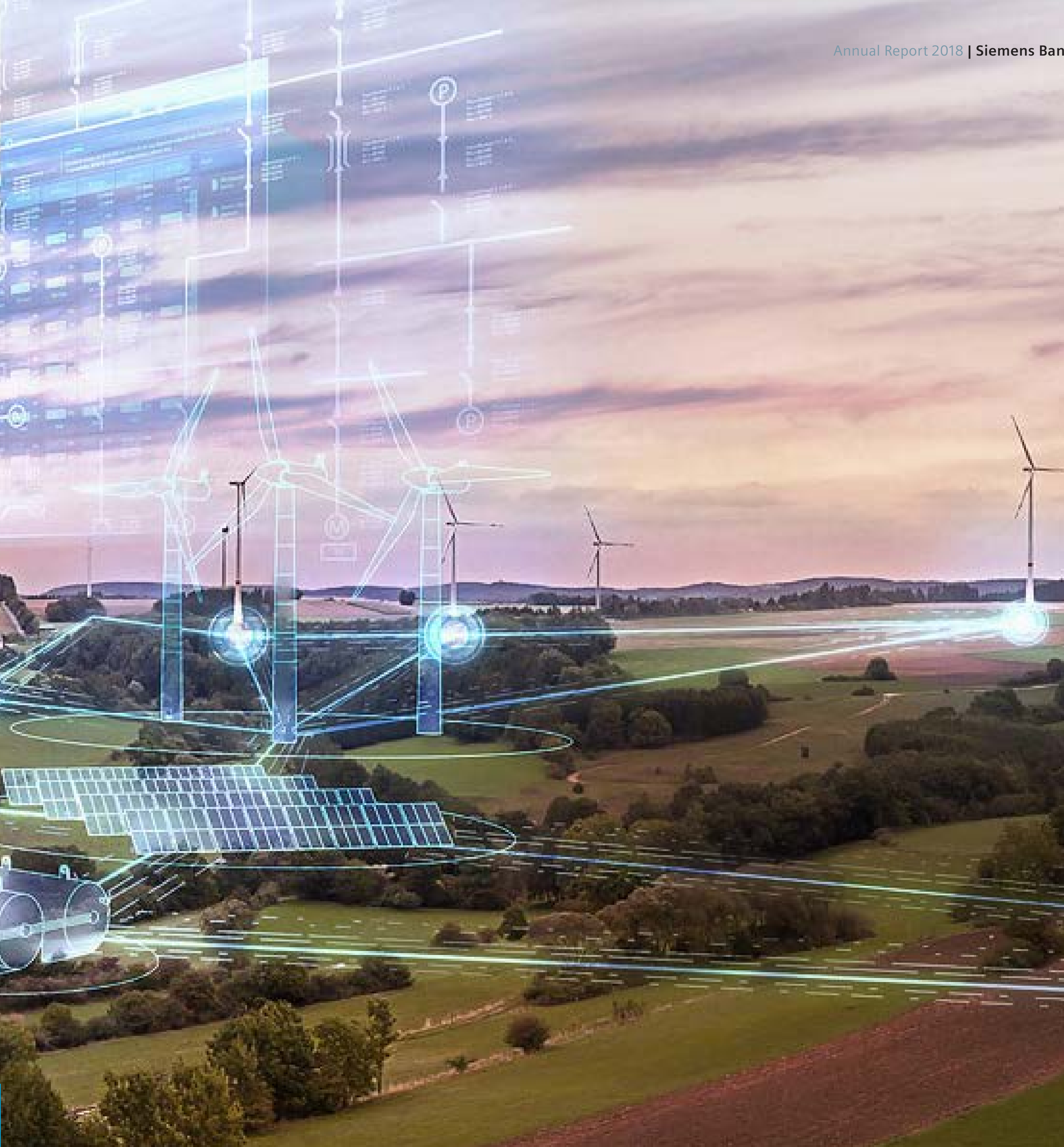
of Siemens Bank GmbH, Munich, for the fiscal year from October 1, 2017, to September 30, 2018

Assets		Notes to the financial statements		2018	2017
1	**Cash**				
	Credit balance with central banks of which with Deutsche Bundesbank: €20,925 thousand (previous year: €21,050 thousand)		21,556		37,887
				21,556	37,887
2	**Debt instruments of public institutions and bills of exchange that are eligible as collateral with central banks**	6			
	Treasury bills and non-interest-bearing treasury bonds as well as similar debt instruments of public institutions of which refinanceable at Deutsche Bundesbank: €0 thousand (previous year: €0 thousand)		44,385		12,465
				44,385	12,465
3	**Loans and advances to banks**	7			
	a) Sight deposits		23,818		47,542
	b) Other receivables		57,998		99,234
				81,816	146,776
4	**Loans and advances to customers**	8		6,493,957	5,363,842
	including secured by liens €0 thousand (previous year: €0 thousand) including municipal loans €520,830 thousand (previous year: €469,949 thousand)				
5	**Bonds and other fixed-income securities**	9			
	Commercial paper and bonds from other issuers of which eligible as collateral with Deutsche Bundesbank: €0 thousand (previous year: €0 thousand)		34,774		0
				34,774	0
6	**Trust assets**	10		275,444	0
	of which trust loans: €275,444 thousand (previous year: €0 thousand)				
7	**Property and equipment**	11		117	93
8	**Other assets**	12		2,504	4,396
9	**Prepaid expenses and deferred income**	13		3,772	3,578
Total assets		20		6,958,325	5,569,037

	Liabilities	Notes to the financial statements		2018	2017
1	**Amounts due to banks**	**14**			
	With agreed maturities or notice period		8,775		12,466
				8,775	**12,466**
2	**Amounts due to customers**	**15**			
	Other amounts due				
	a) Sight deposits		9,036		3,218
	b) With agreed maturities or notice period		5,520,547		4,416,510
				5,529,583	**4,419,728**
3	**Trust liabilities**	**10**		**275,444**	**0**
	of which trust loans: €275,444 thousand (previous year: €0 thousand)				
4	**Other liabilities**	**16**		**77,173**	**70,088**
5	**Prepaid expenses and deferred income**	**13**		**41,889**	**41,692**
6	**Provisions**	**17, 18**			
	a) Provisions for pensions and similar obligations		11,109		10,107
	b) Provisions for taxes		3,974		4,486
	c) Other provisions		10,378		10,470
				25,461	**25,063**
7	**Equity**	**19**			
	a) Subscribed capital		5,000		5,000
	b) Capital reserves		995,000		995,000
				1,000,000	**1,000,000**
	Total liabilities	**20**		**6,958,325**	**5,569,037**
1	**Contingent liabilities**				
	Liabilities under guarantees and warranty agreements	21		0	3,943
2	**Other obligations**				
	Irrevocable loan commitments	21		935,934	976,196



Notes to the financial statements



Notes to the financial statements

of Siemens Bank GmbH, Munich, for the fiscal year from October 1, 2017, to September 30, 2018

Basis of accounting in the annual financial statements of Siemens Bank

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

The annual financial statements of Siemens Bank for the fiscal year ending on September 30, 2018, have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the German Accounting Regulation for Banks and Financial Services Institutions (RechKredV). The annual financial statements also comply with the provisions of the German Private Limited Companies Act (GmbHG).

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

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

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

Accounting policies

Loans and advances to banks and customers

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

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

The risk allowances for losses in the credit business include both specific loan loss provisions and general loan loss provisions related to latent credit risks. In the 2018 fiscal year, Siemens Bank reviewed the valuation parameters of the lending portfolio based on historical data and against the backdrop of increased uncertainty in the lending markets.

As a result, Siemens Bank has further developed and refined its valuation models for latent credit risks in order to better reflect the expected losses of the portfolio. Specific loan loss provisions continue to reflect, without modification, individual loan defaults expected in connection with a loan exposure at risk of default. General loan loss provisions are based on borrower credit ratings, residual maturities and rating-related probabilities of default and proportion of loss in the event of default, with the calculation being based more strongly on expected losses. The adjustment of the valuation parameters led to a more cautious and thus higher valuation of the general loan loss provision of €2,424 thousand, which was recognized in the income statement under depreciation and write-downs on receivables and certain securities as well as additions to provisions in the lending business.

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

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

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

Bonds and other fixed-income securities

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

Trust assets and liabilities

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

Property and equipment

Property and equipment is measured at cost and reduced by depreciation on a straight-line basis over the estimated useful life of the property and equipment concerned. Movable fixed assets that can be used independently and whose individual cost is up to and including €250 (up until December 31, 2017: €150) are immediately expensed. In the case of additions with an individual cost of more than €250 (up until December 31, 2017: €150) but no more than €800 (up until December 31, 2017: €450), the items concerned are recognized on the balance sheet and written off in full in the year of acquisition.

Cash and cash equivalents and other assets

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

Liabilities

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

Deferred taxes

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

Provisions for pensions

Pension benefit obligations are measured at the settlement amount determined in accordance with the actuarial projected unit credit method based on biometric probabilities (projected unit credit method). Estimated future increases in salaries and pensions are factored into the calculation of the present value of the defined benefit obligation. The discount rate used in the calculation is based on the relevant rate published by Deutsche Bundesbank for a maturity of 15 years. In order to determine the interest rate for the discounting of the provisions as of September 30, 2018, Siemens Bank, as in previous years, uses a 10-year average. During the 2016 fiscal year, Siemens had changed the valuation from a seven-year to a 10-year average. Based on the existing profit-and-loss transfer agreement with Siemens AG, income from this adjustment is not subject to the dividend payout restriction.

Pursuant to the German Occupational Pensions Act (BetrAVG) and the UK Pensions Act 1995, Siemens Bank continues to be liable at a subsidiary level for pensions that are provided via an indirect route. If the relevant assets of the pension fund (or the Pensionskasse or Unterstützungskasse) 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 that cannot be the subject of a claim by any other creditors are measured at fair value. Income and expenses associated with these assets are netted with the interest cost in connection with the unwinding of discounts on the corresponding obligations and are reported under general administrative expenses, social security, post-employment and other employee benefit costs, and under other operating expenses. In addition, these assets are offset against the corresponding underlying obligation. If this results in a surplus obligation, this obligation is reported under provisions. If the value of assets exceeds the obligations, the amount is reported as an excess of plan assets over pension liabilities.

Provisions for taxes and other provisions

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

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

For all interest-rate-related financial instruments in the banking book, Siemens Bank provides evidence – in accordance with the principle of loss-free valuation – that no losses will be incurred in the future from contracted interest-rate positions. This is done by comparing the net present value of the banking book with its net carrying amount, taking into consideration expected losses and present value general administrative expenses from the resolution of the existing portfolio. If the net carrying amount is greater than the net present value, there is a requirement for the recognition of a corresponding provision. As in the previous year, there was no requirement as of September 30, 2018, for the recognition of a provision for onerous contracts pursuant to section 340a HGB in conjunction with section 249 (1) sentence 1 HGB.

Currency translation

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

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

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

Derivative financial instruments

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

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

Income statement disclosures

1 Geographical breakdown and net interest income

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

in %	2018	2017
Germany	9	11
Elsewhere	91	89
of which EMEA region (Europe, Middle East, Africa)	75	77
of which AA region (Asia and Australia)	16	12

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

2 Fee and commission income

Fee and commission income is derived from the following services:

(€'000)	2018	2017
Risk management and processing services for affiliated companies	25,174	21,300
Risk management services and credit business services for third parties	827	1,723
Total	**26,002**	**23,023**

3 Other operating income and expense

Other operating expense largely comprises losses from currency translation, expenses from unwinding the discount on provisions and in connection with additions to certain provisions. Expenses arising from currency translation amounted to €1,267 thousand (previous year: €1,541 thousand). Expenses from unwinding the discount on provisions amounted to €795 thousand (previous year: €608 thousand).

Other operating income results from the dissolution of other provisions from the previous year for year-end costs.

4 Taxes on income

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

The London branch of Siemens Bank forms part of the income tax group of Siemens plc, Frimley (United Kingdom). Due to a different design of the income tax structure in the United Kingdom, taxes on income, in addition to deferred taxes, also comprise payments and provisions for current payments of income tax in the United Kingdom.

The Singapore branch does not form part of an income tax group. Therefore, taxes on income, in addition to deferred taxes, also include payments and provisions for current income tax.

Deferred taxes for the London branch result mainly from valuation differences between the annual financial statements according to the HGB and the tax balance sheet according to English tax law for receivables and for provisions. As of September 30, 2018, this results in a surplus of deferred tax assets.

The Singapore branch also shows a surplus of deferred tax assets as of September 30, 2018, which also results mainly from valuation differences between the annual financial statements according to the HGB and according to the tax law in Singapore for receivables and for provisions.

The valuation of deferred taxes is based on a tax rate of 31.44% in Germany, 17.00% in the United Kingdom and 13.50% in Singapore.

As in the previous year, there was an overall surplus of deferred tax assets as of September 30, 2018. Siemens Bank does not recognize any deferred tax assets.

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, amounting to €69,029,543.05, is transferred to Siemens AG.

Balance sheet disclosures

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

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

7 Loans and advances to banks

(€'000)	2018	2017
Loans and advances to banks with maturities of	**57,998**	**99,234**
(excluding loan loss allowances and interest accruals)		
up to and including 3 months	57,998	99,234
more than 3 months and up to 1 year	0	0
more than 1 year and up to 5 years	0	0
more than 5 years	0	0

8 Loans and advances to customers

(€'000)	2018	2017
Loans and advances to customers with maturities of	**6,538,936**	**5,402,914**
(excluding loan loss allowances and interest accruals)		
up to and including 3 months	53,319	149,798
more than 3 months and up to 1 year	540,556	765,878
more than 1 year and up to 5 years	2,387,221	1,739,919
more than 5 years	3,557,840	2,747,319

Loans and advances to customers include loans and advances to affiliated companies with a value of €339,534 thousand (previous year: €373,697 thousand). This item does not include any loans and advances to the shareholder (previous year: €1,286 thousand).

9 Bonds and other fixed-income securities

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

10 Trust assets and liabilities

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

11 Statement of changes in fixed assets

The changes in property and equipment over the 2018 fiscal year were as follows:

(€'000)	Cost				
	Oct. 1, 2017	Additions	Transfers	Disposals	Sep. 30, 2018
Property and equipment	**181**	**116**	**-3**	**-5**	**289**
Office furniture and equipment	181	116	-3	-5	289

(€'000)	Depreciation and write-downs				Carrying amount	
	Oct. 1, 2017	Sep. 30, 2018	Current year	Disposals	2018	2017
Property and equipment	**-88**	**-172**	**-91**	**7**	**117**	**93**
Office furniture and equipment	-88	-172	-91	7	117	93

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

(€'000)	Cost				
	Oct. 1, 2016	Additions	Transfers	Disposals	Sep. 30, 2017
Property and equipment	**102**	**76**	**8**	**-5**	**181**
Office furniture and equipment	102	76	8	-5	181

(€'000)	Depreciation and write-downs				Carrying amount	
	Oct. 1, 2016	Sep. 30, 2017	Current year	Disposals	2017	2016
Property and equipment	**-60**	**-88**	**-32**	**5**	**93**	**42**
Office furniture and equipment	-60	-88	-32	5	93	42

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

12 Other assets

Other assets mainly comprise receivables arising from pending incoming payments in the lending and fee business amounting to €823 thousand (previous year: €3,254 thousand), accrued interest from interest-rate swaps of €640 thousand (previous year: €953 thousand) and receivables arising from taxes on income amounting to €589 thousand (previous year: €60 thousand).

13 Prepaid expenses and deferred income

(€'000)	2018	2017
Prepaid expenses	**3,772**	**3,578**
Premium on loans and advances	1,695	2,425
Other deferred income	2,077	1,153
Deferred income	**41,889**	**41,692**
Discount on loans and advances	17,180	13,282
Other deferred income	24,710	28,410

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

14 Amounts due to banks

(€'000)	2018	2017
Amounts due to banks	**8,775**	**12,466**
(excluding interest accruals)		
up to and including 3 months	0	12,466
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	8,775	0

15 Amounts due to customers

(€'000)	2018	2017
Amounts due to customers with maturities of	**5,506,234**	**4,408,304**
(excluding interest accruals)		
up to and including 3 months	822,435	464,906
more than 3 months and up to 1 year	712,021	807,873
more than 1 year and up to 5 years	3,071,083	2,574,630
more than 5 years	900,695	560,894

Of the amounts due to customers, €5,449,529 thousand (previous year: €4,349,729 thousand) is accounted for by transactions with affiliated companies. Within this total of amounts due to customers, an amount of €5,198,060 thousand is due to the shareholder (previous year: €3,874,313 thousand).

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

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

16 Other liabilities

The breakdown of other liabilities is as follows:

(€'000)	2018	2017
Other liabilities	**77,173**	**70,088**
Liabilities to the shareholder	69,029	65,097
Withholding tax and duties to be paid	5,315	3,256
VAT liabilities and other items	2,232	23
Personnel-related obligations	597	1,713

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

17 Provisions for pensions and similar obligations

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

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

In addition, Siemens Bank offers employees the option of participating in a voluntary deferred compensation scheme. The salary components deferred under this scheme are invested in fund units. The fund units are only used to cover the resulting pension obligations and are protected against claims from other creditors. These assets, which had a fair value determined using recognized valuation methods (stock market prices) of €955 thousand as of September 30, 2018 (previous year: €885 thousand) and a cost value of €803 thousand (previous year: €729 thousand), are therefore fully offset against the pension obligations up to the amount of these obligations. Income and expenses each in the amount of €127 thousand (previous year: €100 thousand) were netted.

In addition, on behalf of the employees at the London branch, Siemens Bank participates in the pension scheme operated by the Siemens Group for employees in the United Kingdom. Here, contributions are paid into a pension plan without any additional obligations for Siemens Bank. Where employees have been given further fixed pension entitlements in a few individual cases, these pension entitlements are covered directly by the Siemens Pensions Trust. Siemens Bank only has an indirect liability for these obligations if the resources of the Trust turn out to be inadequate to cover the pension obligations. The assets assigned to the Trust, which had a fair value determined using recognized valuation methods of €1,813 thousand as of September 30, 2018 (previous year: €1,849 thousand), are therefore fully offset against this pension obligation up to the amount of this obligation.

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

For the 2018 fiscal year, the total settlement amount for the pension provisions amounted to €13,473 thousand (previous year: €12,362 thousand), of which €2,365 thousand (previous year: €2,255 thousand) was accounted for by indirect obligations fully covered by assets.

The actuarial measurement of the settlement amount was based on a number of variables including discount rates of 3.34% (10-year average) and 2.43% (seven-year average) respectively. Last year, the discount rates were 3.77% (10-year average) and 2.91% (seven-year average) respectively. Other variables used as a basis were a salary growth rate in Germany of 2.25% per annum (previous year: 2.25%) and a pension growth rate of 1.5% per annum (previous year: 1.5%). For employees at the London branch, a salary trend of 3.7% per annum (previous year: 3.7%) and a pension growth rate of 3.1% per annum (previous year: 3.1%) is expected. The mortality probabilities are based on Siemens-specific mortality tables with a mortality trend based on the Heubeck RT 2005 G tables. The Heubeck RT 2018 mortality tables are not used because the Siemens-specific tables already contain a better estimate of the mortality trend than the Heubeck RT 2005 G tables.

The adjustment of the discount rate from a seven-year average to a 10-year average results in a difference of €1,784 thousand (previous year: €1,586 thousand). Based on the existing profit-and-loss transfer agreement with Siemens AG, this income is not subject to the dividend payout restriction. In the context of determining the liabilities from the deferred compensation scheme, Siemens Bank exercised a lock-in option for accrued profits. The exercising of this option constitutes an adjustment of the plan. The resulting income of €41 thousand (previous year: €50 thousand) was offset against free capital provisions in order to determine the dividend payout restriction.

18 Other provisions

The changes in other provisions over the 2018 fiscal year were as follows:

(€'000)	Oct. 1, 2017	Transferred	Utilized
Other provisions	**10,470**	**-193**	**-5,257**
of which with maturities up to 1 year	7,329	631	-4,082

(€'000)	Reversed	New	Sep. 30, 2018
Other provisions	**-322**	**5,682**	**10,378**
of which with maturities up to 1 year	-322	4,741	8,297

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

(€'000)	Oct. 1, 2016	Transferred	Utilized
Other provisions	**7,931**	**-63**	**-3,499**
of which with maturities up to 1 year	6,571	205	-3,499

(€'000)	Reversed	New	Sep. 30, 2017
Other provisions	**-441**	**6,542**	**10,470**
of which with maturities up to 1 year	-432	4,466	7,311

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

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

(€'000)	2018	2017
Other provisions	**10,378**	**10,470**
Personnel-related provisions	10,117	9,035
Provisions for year-end costs	262	1,435

19 Equity

As last year, there were no changes to the components of equity in the 2018 fiscal year.

Due to plan adjustments of the pension plans from deferred compensation schemes, €41 thousand of the capital provisions are subject to a payout restriction (previous year: €50 thousand).

20 Assets and liabilities denominated in foreign currency

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

(€'000)	2018	2017
Assets denominated in foreign currency	**3,736,394**	**2,976,445**
Liabilities denominated in foreign currency	**3,731,737**	**2,971,677**

Other disclosures

21 Off-balance-sheet transactions

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

Last year, contingent liabilities arose from guarantee credit facilities. Under these guarantee credit facilities, Siemens Bank must make payments to the beneficiary if the Siemens Bank customer fails to meet its obligations. 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.

22 Derivative financial instruments

Siemens Bank held the following derivatives as of September 30, 2018:

	Nominal amount				
	2018			Total amount	
(€'000)	≤ 1 year	>1 – 5 years	> 5 years	2018	2017
Interest-rate derivatives					
OTC interest-rate swaps	431,248	168,000	0	599,248	995,000
Embedded floors	0	15,023	0	15,023	11,837

The fair values of the derivatives as of September 30, 2018 were as follows:

	Market values (including accrued interest)			
	Positive		Negative	
(€'000)	2018	2017	2018	2017
Interest-rate derivatives				
OTC interest-rate swaps	903	990	-61	-23
Embedded floors	118	22	0	0

In the 2018 fiscal year, Siemens Bank designated a fixed-interest deposit and an interest swap transaction OTC to the amount of €78,000 thousand as an HGB accounting group in order to hedge interest-induced market risks for a period of 3 years. This accounting group was used to hedge negative valuation effects from interest-rate risks amounting to €391 thousand. The effectiveness of the accounting group is proved by a comparison of the interest-induced changes in market value. For recognition, Siemens Bank has applied the net hedge presentation method, according to which the ineffective part of the accounting group is to be recognized using the imparity principle. Provisions for onerous contracts were not to be allocated. In the previous year, Siemens Bank had included a fixed-interest deposit and an interest-rate swap to the amount of €365,000 thousand each in one accounting group and allocated a provision for onerous contracts to the amount of €1,169 thousand, which had been reported under other provisions as a component of the provisions for year-end costs. This accounting group was dissolved and recognized in the income statement during the 2018 fiscal year.

For short-term interest swap transactions OTC that are not incorporated into accounting groups, Siemens Bank recognized provisions for onerous contracts amounting to €107 thousand (previous year: €138 thousand), which are also recorded under other provisions as a component of the provisions for year-end costs.

23 Other financial obligations

Other financial obligations for the following years amount to €19,527 thousand (previous year: €22,254 thousand). These mainly relate to obligations arising from purchase and outsourcing agreements as well as from rental agreements. This amount includes obligations to affiliated companies in the amount of €19,038 thousand (previous year: €21.741 thousand).

24 Employees

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

Employees	2018	2017
Siemens Bank GmbH	**217.0**	**201.7**
Munich branch (including Nuremberg and Erlangen)	**166.0**	**161.9**
Employment contracts	173.4	168.0
of which part-time	30.0	22.6
London branch	**33.0**	**31.2**
Employment contracts	33.0	31.2
of which part-time	0.0	0.0
Singapore branch	**18.0**	**8.6**
Employment contracts	18.0	8.6
of which part-time	0.0	0.0

The Singapore branch commenced operations on March 1, 2017. The average employee numbers relate to the entire fiscal year, in accordance with the other locations.

25 Members of the Management Board and Supervisory Board

The following persons have been appointed as managing directors:

» Roland Chalons-Browne, Chairman and Chief Executive Officer of Siemens Bank

» Dr. Ingeborg Hampl, member of the Management Board, Chief Risk Officer and, since July 1, 2018, Chief Financial Officer of Siemens Bank

» Dr. Peter Rathgeb (until June 30, 2018), 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 2018 fiscal year.

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

» Veronika Bienert, member of the Management Board of Siemens Financial Services GmbH, Munich, and Chief Financial Officer of the Financial Services Division of Siemens AG,

» Hans-Peter Rupprecht (until June 30, 2018), former Chief Executive Officer of Siemens Treasury GmbH, Munich, and Corporate Treasurer of Siemens AG,

» Dr. Peter Rathgeb (since July 1, 2018), Chief Executive Officer of Siemens Treasury GmbH, Munich, and Corporate Treasurer of Siemens AG.

Veronika Bienert was elected as the chairperson and Dr. Peter Rathgeb was elected to succeed Hans-Peter Rupprecht as the deputy chairperson of the Supervisory Board. Neither acting nor retired members of the Supervisory Board received any remuneration or pension entitlements from Siemens Bank for their activities as Supervisory Board members in the 2018 fiscal year.

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

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

» Chairman of the Supervisory Board of RISICOM Rückversicherung AG, Grünwald

» Chairman of the Board of Directors of Siemens Financial Services Inc., Iselin, New Jersey, United States

26 Membership in a corporate group

Siemens Bank is a wholly owned subsidiary of Siemens AG, Berlin and Munich, and is incorporated into the parent company's consolidated financial statements. The consolidated financial statements of Siemens AG are submitted for publication in the electronic German Federal Gazette (Bundesanzeiger). Pursuant to section 285 no. 21 of the HGB, Siemens Bank did not enter into any transactions in the year under review with related 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 the HGB.

27 Events after the balance sheet date

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

Munich, December 3, 2018
The Management Board

Roland Chalons-Browne Dr. Ingeborg Hampl

Audit opinion

Independent auditor's report

To Siemens Bank GmbH, Munich

Report on the audit of the annual financial statements and of the management report

Opinions

We have audited the annual financial statements of Siemens Bank GmbH, Munich, which comprise the balance sheet as at September 30, 2018, and the income statement for the fiscal year from October 1, 2017, to September 30, 2018, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Siemens Bank GmbH, Munich, for the fiscal year from October 1, 2017, to September 30, 2018.

In our opinion, on the basis of the knowledge obtained in the audit,

» the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to institutions and give a true and fair view of the assets, liabilities and financial position of the Institution as at September 30, 2018, and of its financial performance for the fiscal year from October 1, 2017, to September 30, 2018, in compliance with German legally required accounting principles, and

» the accompanying management report as a whole provides an appropriate view of the Institution's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB ["Handelsgesetzbuch": German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). In conducting the audit of the annual financial statements we also complied with International Standards on Auditing (ISA). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's responsibilities for the audit of the annual financial statements and of the management report" section of our auditor's report. We are independent of the Institution in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from October 1, 2017, to September 30, 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

Identification and valuation of impaired loans and advances to customers

Reasons why the matter was determined to be a key audit matter:

The identification and valuation of impaired loans and advances to customers constitutes a key area in which management makes judgment-based decisions. The identification of impaired loans and advances to customers and the determination of expected future payments in order to value impaired loans and advances to customers entail uncertainties and are subject to various assumptions and factors that require the use of judgment or estimates, in particular the appraisal of the customers' financial situation, expectations regarding future inflows of funds, determination of fair values of collateral provided and the formation of expectations regarding net sales prices of credit claims in the market. For impaired loans and advances, these judgments made in determining the assumptions can have a significant effect on the allowances to be recognized.

During the audit, we determined the "identification and valuation of impaired loans and advances to customers" to be a key audit matter due to the amount of the individual loans and the high valuation sensitivity of the underlying assumptions and the associated risk of material misstatement.

Auditor's response:

Identification of impaired loans and advances to customers

We assessed the design and operating effectiveness of the accounting-related internal control system with regard to the identification of impaired loans and advances to customers and tested the implemented controls. The focus of our audit procedures was on the processes for identifying outstanding payments, the processes for analyzing information on the customers' financial situation, and the processes for identifying and analyzing ad hoc information on countries showing indications of a significant deterioration in credit quality.

Valuation of impaired loans and advances to customers

During our audit, the focus was in particular on the estimates made by management regarding the expected cash inflows and on the determination of the fair values of provided real and personal collateral for the valuation of impaired loans and advances to customers. The decisive aspects in this context are mainly the processes implemented by the Bank to quantify risks, in particular the determination of the individual loss given default on each customer loan, and the estimates used for the calculation (amount and timing of expected cash inflows, fair values of existing collateral and expectations regarding net sales prices of credit claims in the market). As part of our audit procedures, we validated on a sample basis the estimates of the expected cash inflows for the impaired loans and advances, in particular by comparing the amounts of the expected cash inflows with the restructuring agreements and historical data, and analyzing their sensitivity to the valuation. To assess the legal validity of real and personal collateral provided, we compared Siemens Bank GmbH's data with the underlying contract data. On a sample basis, we reperformed the calculation of the amount of the impairment.

Our audit procedures did not give rise to any reservations with respect to the identification and valuation of impaired loans and advances to customers.

Reference to related disclosures:

The Institution's disclosures about the valuation of impaired loans and advances to customers are provided in the notes to the financial statements under "Accounting policies" in the section on "Loans and advances to banks and customers."

Other information

Management is responsible for the following other information. The other information comprises the report by the Board on the development of business in the editorial of the annual report of Siemens Bank GmbH, Munich, for 2018.

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

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

» is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or

» otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the Supervisory Board for the annual financial statements and the management report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to institutions, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles. In addition, management is responsible for such internal control as management, in accordance with German legally required accounting principles, has determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Institution's ability to continue as a going concern. It also has the responsibility for disclosing, as applicable, matters related to going concern. In addition, management is responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Institution's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as management has considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Institution's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Institution's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation as well as in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the IDW and in supplementary compliance with ISA will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

» Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

» Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Institution.

» Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Institution's position it provides.
- Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, the related safeguards.

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

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the General Meeting on February 8, 2018. We were engaged by the Supervisory Board on July 31, 2018. We have been the auditor of Siemens Bank GmbH, Munich, without interruption since fiscal 2010.

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

In addition to the financial statement audit, we have provided to the Institution the following services that are not disclosed in the annual financial statements or in the management report:

Audit-related services pursuant to Sec. V. No. 11 (1) of the General Terms and Conditions of the Deutsche Bundesbank (confirmation of the credit claims submission process)

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Mr. Thimo Worthmann.

Munich, December 6, 2018
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Worthmann	Bauer
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]


DOW OS
DOW OS

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

Annex to the annual financial statements of Siemens Bank GmbH, Munich,
for the fiscal year from October 1, 2017, to September 30, 2018

Siemens Bank maintained the following branches in member states of the European Union as of September 30, 2018:

» Germany: Siemens Bank GmbH, Otto-Hahn-Ring 6, 81739 Munich (head office) with offices in Erlangen and Nuremberg

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

As of September 3, 2018, Siemens Bank had one branch office in a country outside the European Union:

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

The breakdown of operations at these branches is as follows:

	Germany		United Kingdom		Singapore	
(* €'000)	2018	2017	2018	2017	2018	2017
Business type	Lending and guarantee business		Lending and guarantee business		Lending and guarantee business	
Figures						
Sales revenue *	52,776	60,401	77,986	72,916	30,594	3,538
Profit before tax *	42,487	41,931	28,185	35,500	6,240	-3,614
Taxes on profit *	-715	-204	-6,313	-8,537	-854	-2
Government assistance received *	0	0	0	0	0	0
Number of employees on payroll	166.2	161.9	34.0	31.2	20.0	15.0

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

Return on investment pursuant to section 26a (1) 4 KWG was 1.0% (previous year: 1.2%).

Publisher:
Siemens Bank GmbH
80200 Munich
Germany

info.siemens-bank@siemens.com
Phone +49 89 636-25311
Phone +49 89 636-30049

Order No. L1-Z1124
Printed in Germany
BR 0219

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

www.siemens.com/finance