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Siemens Bank GmbH

Annual Report 2017

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Editorial

Dear readers,

The positive development that Siemens Bank has been able to record in a number of ways since its founding in 2010 gained further momentum this past year: We can look back at a particularly successful fiscal 2017.

This success is manifested not least in the growth of business volume in our core activity credit/loan business which rose by 11% last fiscal year.

At the same time, the trend in loan loss provisions in particular was very positive, which contributed to the strong overall improvement in profitability for Siemens Bank – the best figure it has ever achieved.

In order to properly classify these results, one also has to consider the economic development of the regions in which Siemens Bank conducts the majority of its business: Europe, Asia and Australia. The economic situation in these regions developed better than anticipated. Nevertheless, this positive development should not distract from current uncertainties such as Brexit, interest policies of the central banks and growth-rate trends in Asia.

In fiscal 2017, Siemens Bank met the needs of the increasingly significant Southeast Asian market by opening a new subsidiary in Singapore. Approximately two years after project start, the Monetary Authority of Singapore (MAS) granted Siemens Bank approval to commence operations as a merchant bank in Singapore. The decision to open up a merchant bank branch was a logical step in expanding our presence in the Asia-Australia region. This will allow us to take prompt action in the local project financing market and provide even better support for local Siemens sales activities.

Of course, there were also a number of notable and newsworthy financing projects during the reporting year. For instance, Siemens Bank acted as mandated lead arranger for various projects using wind and gas turbines. The largest of these projects was related to an offshore wind power plant off the British eastern coast consisting of 91 Siemens 6 MW direct-drive wind turbines. Once fully built, it will have a capacity to supply approximately 400,000 British households with eco-friendly electricity. Siemens Bank played a leading role in the transaction, for the first time acting as an insurance bank – that is, the bank responsible for arranging the insurance concept for the consortium – which reflects the solid reputation and market expertise of our bank.

In addition, Siemens Bank, working in a public-private partnership project, played a crucial role in the construction and completion of the Elazig Integrated Health Campus, one element in Turkey's long-term transformation of its healthcare system. This is a major social infrastructure project in Turkey and is also the first project to use credit enhancement according to the global COP21 agreement (21st UN Climate Conference) in support of emerging markets.

As a whole, the development of our business activity in the last fiscal year demonstrates that we are better positioned than ever to support the growth plans of Siemens AG and its subsidiaries and to serve the financing requirements of our current and potential customers. Siemens Bank therefore is and will remain an important contributer to the success of the Group.

Siemens Bank GmbH
The Management Board

Roland Chalons-Browne
Managing Director (CEO)

Dr. Ingeborg Hampl
Managing Director (CRO)

Dr. Peter Rathgeb
Managing Director (CFO)

Content

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

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

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Management report


1155 kW
Consumption
88 kW
500 (Company Size by No. of EMP)
De
Intelligent Office Building

Management report

of Siemens Bank GmbH, Munich,
for the period October 1, 2016, to September 30, 2017

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 in particular issued in the context of project financing, but are currently playing a subordinate 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 lending business is funded by equity and deposits.

» Fee business: Key resources for managing financial risk and processing financial transactions in the Siemens Group are pooled within Siemens Bank. These resources not only support the Bank's own banking operations, 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.

Contrary to Siemens Bank's expectations as described in last year's forecast, economic development picked up during the 2017 fiscal year, as a series of identified risk factors did not materialize and did not have the expected negative influence on the economic situation. This upturn, on the one hand, has a broad regional basis and, on the other hand, signs of a cyclical overheating of the economy are currently not yet apparent.

Nevertheless, economic development was, as expected, heterogeneous in the various relevant markets. According to data published by the Organization for Economic Cooperation and Development (OECD), gross domestic product (GDP) in OECD countries rose in the 2017 calendar year by 0.7% in the first quarter and by 0.5% in the second quarter, in both cases in comparison with the previous quarter (last year: 0.4% and 0.3% respectively). In the United States, GDP continued to rise, with the growth rate accelerating significantly after a dip during the first calendar quarter. Also, growth rates in Asia – including important emerging markets such as China and India – remained relatively high, even though they fell below the very high growth rates seen in the past. Here, uncertainties regarding the future economic development in this region had a growth-dampening effect, for instance uncertainties relating to the stability of the Chinese banking industry, the very high liquidity in the lending market, or monetary-policy measures such as cash reform in India.

GDP in the eurozone continued to grow significantly by 0.5% during the first calendar quarter and 0.6% during the second, in each case compared with the previous quarter, which indicates a stabilized recovery process in the eurozone. This growth is fueled not only by private consumption, but increasingly also by higher investments as a consequence of the backlog of demand accrued in previous years. Here, positive developments are to be seen not only, as in the past, in Germany, Spain and the Netherlands but also in France and Italy. However, the banking sector in Italy continues to be characterized by major transitions such as rescue sales and government bailout measures for institutions with a large portfolio of problematic loans. Outside the eurozone, GDP rose in the United Kingdom during the first and the second quarters, by 0.2% and 0.3%, respectively; however, these growth rates show significantly cooled-off growth dynamics – not least due to increased uncertainties after the Brexit decision regarding the planned withdrawal of the United Kingdom from the European Union.

Overall, 2017 saw a recovery of economic development within and outside the eurozone, the extent of which surpassed the expectations in last year's forecast. This development also had a positive influence on business, and therefore on Siemens Bank's financial position and results of operations.

Nevertheless, Siemens Bank continued to see sustained intense competition in the market for project and investment funding as the interest-rate level, in particular in the eurozone, remained at a historically low level and as the lending market is highly liquid. Siemens Bank has identified a similar market and competition situation in some Asian markets. The high liquidity in the market and the emergence of new competitors outside the classical banking sector who act as investors in project financing and corporate financing in the form of insurance pension funds or alternative investment funds have the consequence that companies exploit the favorable capital-market conditions to refinance through bonds or to replace existing financing with borrowing on more favorable terms, thus further increasing the margin pressure on the lending markets.

Even though project financing and capital spending on equipment are usually subject to longer-term planning cycles and therefore less dependent on economic developments, the heavy competitive pressure among banks has led to a very challenging market environment. This environment makes it increasingly difficult to generate attractive risk-return profiles. Nevertheless, the broad geographical positioning of Siemens Bank has enabled the Bank to offset weak trends in individual geographic markets or industries by exploiting opportunities in other markets.

1.3 Regulatory developments

Under the Basel III framework, which was drawn up at the 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 through higher capital requirements to cover risk and greater liquidity buffers for 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. In order to ensure comprehensive effectiveness of the uniform rules and regulations for European banks, the core legal provisions provide for a large number of delegated regulations and implementing regulations that will be brought into force by the European Commission on the basis of proposals drawn up by the European Banking Authority (EBA). These delegated regulations and implementation regulations specify in detail the way in which banks and relevant authorities must satisfy the regulatory requirements set forth in the core CRR and CRD IV legal provisions.

Siemens Bank constantly tracks the changes in European and national legislation and set up an overall project at an early stage to continuously implement the CRR/CRD IV reform package. The overall project was finalized in fiscal year 2017. The further observation of developments in European and national legislation, the analysis of their impact on Siemens Bank, and the monitoring of the timely implementation will now be effected under the Siemens Bank Compliance Program.

Major current and pending regulatory issues with relevance for Siemens Bank are listed below.

In the 2017 fiscal year, Siemens Bank, for instance, implemented Regulation (EU) 2015/534 (ECB/2015/13) on reporting of supervisory financial information (FinRep). For Siemens Bank, the reporting obligation became effective for the first time as of June 30, 2017.

In June 2016, the EBA published the guidelines for sound remuneration policies pursuant to Article 74 (2) of Directive 2013/36/EU and information pursuant to Article 450 of the CRR. A revision of the Decree on Banking Remuneration (InstitutsVergV) came into force in August 2017. The InstitutsVergV 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 InstitutsVergV will be implemented during fiscal 2018.

During the 2017 fiscal year, Siemens Bank prepared intensively for the implementation of the statistical regulation on the multistage 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 first obligatory test phase began in October 2017. The reporting obligations will have to have been implemented by the first full reporting date of August 31, 2018.

The Act on the Detection of Profits from Severe Criminal Offenses (GWG) came into force in Germany on June 26, 2017. Apart from changed requirements regarding customer due diligence (such as a new definition of the economic beneficiary) and the introduction of a transparency register, the new alignment of the Financial Intelligence Unit (Zentralstelle für Finanztransaktionen), which in the future will be affiliated with the Federal Ministry of Finance (Bundesministerium der Finanzen) or the Customs Investigation Bureau (Zollkriminalamt), respectively, has also been the focus of public discussion. Major parts of the act were implemented in 2017, and implementation will be finalized during the upcoming year.

In October 2017, the German Federal Financial Supervisory Authority (BaFin), after an extended consultation phase, published a revised version of the Minimum Requirements for Risk Management (MaRisk). The revised version mainly includes the recommendations of the Basel Committee on Banking Supervision on the principles for risk data aggregation and risk reporting (BCBS 239). In addition to this, the revised version mainly includes extended requirements to the management of outsourcing risks, requirements relating to risk culture and additional new rules for the steering of IT risk. Siemens Bank has initiated a project to implement the new MaRisk.

In March 2017, Siemens Bank opened a branch in Singapore (Siemens Bank GmbH, Singapore Branch). The new branch is obligated to comply with local regulatory requirements and reporting obligations under the regulatory reporting rules of the Monetary Authority of Singapore (MAS). The local regulatory requirements are based on the Basel III framework, and essential issues are comparable with the European requirements. The requirements were implemented for local reporting as part of the Singapore Implementation Project. Monitoring and development of changes and/or adjustments to the local regulatory requirements also take place under the Siemens Bank Compliance Program.

In terms of overall impact, the adopted reforms have a far-reaching effect not only on the requirements for reporting to supervisory authorities but also on banking-industry business models and therefore also on the banking landscape as a whole. On the one hand, the continuous tightening of regulatory requirements and reporting obligations leads to increased operational costs. On the other hand, it is still to be assumed that many banks will take a more restrictive and selective approach to assuming new risks, which also opens up business opportunities for market participants with a strong capital and liquidity base such as Siemens Bank.

1.4 Business performance

The 2017 fiscal year was mainly characterized by two influencing factors: The described economic recovery in major markets had a positive impact on the financial position and results of operations, resulting in particular in a reduction in allowances for losses on loans and advances. On the other hand, a persistently challenging economic and regulatory environment as well as high liquidity in important core markets have led to low interest margins and therefore increased pressure on the achievable return on investment. Low interest margins and increased pressure on the achievable return on investment in turn dampened portfolio growth in the lending business and therefore the development of the net interest income. Even though this means that growth in business volume and net interest income in the 2017 fiscal year were below the management's expectations, development in the area of allowances for losses on loans and advances was unexpectedly positive, so that the profitability of Siemens Bank improved substantially, exceeding the Bank's expectations. Even though growth of business volume fell below expectations, management is, on the whole, satisfied with the positive course of business and, in particular, with the above-average development of net income in fiscal 2017.

Net assets

Business volume in the **core activity**, the lending business (including guarantees), showed a significant increase of 11% in 2017, after a decrease of 5% in the previous year.

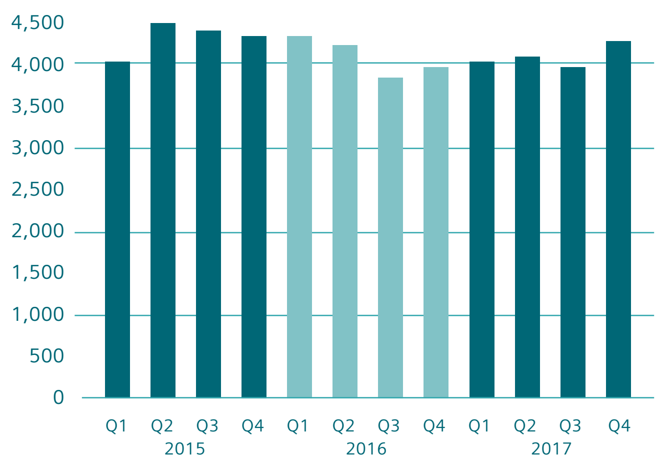


Figure 1: Growth in loans and advances to customers in the lending business (€ million)

While this lending portfolio shrank from the second half of 2015 until the third quarter of the 2016 fiscal year, a significant growth trend has once more been seen since the fourth quarter of 2016.

The reduction between the second quarter of 2015 and the third quarter of 2016 was due to a multitude of factors, including premature repayments by customers who replaced existing loans in view of persistently low interest-rate levels in important markets. On the other hand, Siemens Bank was even more selective with regard to entering into risks that offered an attractive risk-return profile in the existing uncertain market environment.

The growth recorded since the last quarter of 2016 reflects, on the one hand, the beginning of economic recovery. On the other hand, positive growth impulses have resulted from the opening of the Singapore branch on March 1, 2017. In particular during the last quarter of the 2017 fiscal year, the branch has contributed significantly to the growth seen in this lending portfolio. This very positive development is also reflected in the increased portfolio of irrevocable lending commitments amounting to €976 million (previous year: €823 million). Even though there has been an increase in contingent liabilities from sureties and guarantee contracts, they continue to be of subordinate importance for Siemens Bank.

The focus of this lending portfolio in the 2017 fiscal year, as in the previous year, was on activities in the areas of energy (renewables, energy management, oil & gas), infrastructure and health. In this context, the relative significance of renewables and health increased during the 2017 fiscal year, also because the other areas showed only minor growth due to the current market situation. 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 part of financing agreements was signed with existing customers of Siemens AG and its subsidiaries, thereby supporting the activities of the Siemens Group. Siemens Bank also enters into financing agreements with Siemens' target customers, in emerging Siemens markets and even in situations where there is no Siemens connection at all as long as there are business opportunities with an attractive risk-return profile in the lending market concerned.

In the **deposit and treasury business**, the Group financing portfolio, which forms an integral part of the loans and advances to customers, has grown from €327 million to €369 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 association 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 and private bonds as well as under loans and advances to customers – is closely linked to the economic and regulatory requirements relating to liquidity control. Since the 2015 fiscal year, 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.

Here, the moderate increase of 7% (previous year: 2%) in the portfolio of highly liquid assets used as a liquidity reserve and for liquidity control was in line with the Bank's expectations.

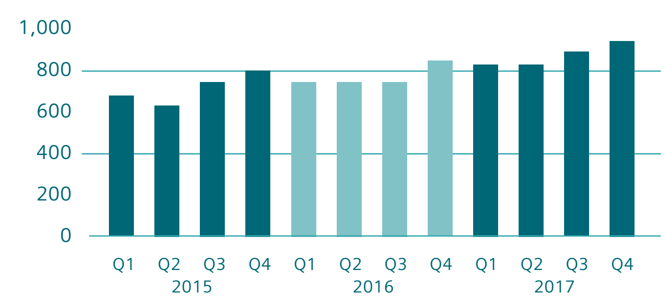


Figure 2: Change in liquidity-related investments in the deposit and treasury business (€ million)

Financial position

The business activities of Siemens Bank are largely refinanced by deposits and equity. Here, 18% (previous year: 20%) 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). An amount of €50 thousand in capital provisions (previous year: €30 thousand) are not eligible for payouts.

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 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 2017 fiscal year.

Results of operations

In spite of the growth in the lending portfolio, the 2017 fiscal year was driven substantially by the dissolution or reduction in the new formation of allowances for losses on loans and advances, while the other income components only showed minor growth. Overall, Siemens Bank was able to continue the growth in income seen in the fiscal years prior to 2016 and to even clearly exceed the extraordinarily good income of the 2015 fiscal year. To that degree, then, the 2016 fiscal year, which was characterized by substantial provisions for loans and advances, was an exception.

(€ million)	2017	2016	2015
Net interest income	116.8	113.7	113.1
Net fee and commission income	22.8	19.2	16.5
General administrative expenses	(55.7)	(53.3)	(51.2)
Other income and expenses, net	(2.8)	(3.3)	6.6
Net operating income before allowances for losses on loans and advances	**81.1**	**76.3**	**85.0**
Allowances for losses on loans and advances	(7.3)	(30.4)	(19.3)
Net operating income	**73.8**	**45.9**	**65.7**

Figure 3: Components of Siemens Bank income

Net interest income at Siemens Bank arises from the spread between interest income on loans and investments on one side and 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. Even though the portfolio in the core activity, the lending business, grew in 2017, net interest income only increased to a relatively small extent. This is on the one hand due to the fact that a substantial part of this growth was only seen in the fourth quarter of the fiscal year and will therefore only have a positive influence on the net interest income for the following years. In addition to this, the net interest income was negatively affected by the revaluation of the euro against the British pound and the US dollar as a significant proportion of the lending portfolio in the lending business is denominated in British pounds and US dollars. Nevertheless, 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 development of net interest income in the previous year was caused mainly by the decline in the lending business as well as by currency effects from the British pound portfolios.

In spite of further growth of 19% (previous year: 16%), **net fee and commission income** is still 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 administration 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 58% (previous year: 59%) of **general administration 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 the purchase of all IT systems required by Siemens Bank. The constant increase in general administration expenses during the last three fiscal years is due to the continuous expansion of the Siemens Bank business activities as well as salary increases and higher costs for some service providers. Applying strict cost discipline, Siemens Bank was also able to limit the effects of the additional structural costs caused by the new Singapore branch.

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 year 2017 in relation to the overall portfolio.

Even though the portfolio in the lending business grew again in the 2017 fiscal year compared with the previous year, **allowances for losses on loans and advances** decreased significantly. The Bank was able to dissolve some allowances that had been formed in previous years for a series of lending commitments – on the one hand because the obligors' economic situation improved significantly, on the other hand because Siemens Bank disposed of lending commitments involving high risks, at terms that were favorable for the Bank. During the 2016 fiscal year, on the other hand, Siemens Bank had to significantly increase allowances for individual loan transactions that depend on the price of oil in order to account for the risks involved with parts of this industry. To that degree, then, the previous year constituted a special situation in the Siemens Bank business development. 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 in the 2017 fiscal year as well.

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 represents Siemens Bank's key **financial performance indicator**. The significant increase in this performance indicator represented an upside scenario in the Siemens Bank plans with regard to the development in allowances for losses on loans and advances that dominated the fiscal year, as the uncertainties identified in last year's forecast did not materialize.

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 year 2017: €58.0 million) is considered in relation to the average economic capital, which amounts to €334.6 million in fiscal year 2017. As of September 30, 2017, this indicator had a value of 17.3% (previous year: 9.6%) and was within the target range of between 15% and 20% for the 2017 fiscal year. The improvement compared with last year is due to reduced allowances for lending 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 of 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 and management and monitoring of individual types of risk as well as 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. All credit decisions are only valid if they receive consent from both the front office and the back office. The authority rules and regulations specify that the back office may not be overruled.

Operational management of risk at Siemens Bank is carried out within the risk strategy framework and subject to the limits specified by the back office. The risk strategy framework and risk management limits are defined by the back office, whereas the front office is responsible for the operational implementation of risk management. Operational risk management is 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 (1a) of the German Banking Act (KWG). In particular, the Risk Committee supports the Management Board in developing and adopting the risk strategy as well as determining the 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.

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

The Asset Liability Management Committee (ALM Committee) is responsible for managing and limiting market, 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.

Risk monitoring

The Finance, Risk Controlling and Operations unit, which reports to the CFO, has been assigned principal responsibility for risk monitoring. Within this unit, the Credit Risk Controlling department is responsible for monitoring credit risk, and the department Market Risk Controlling & Integrated Risk-Return Management is responsible for monitoring market, liquidity and operational risk as well as for matters relating to integrated risk-return management. The head of Finance, Risk Controlling and Operations sits on the Risk Committee, the ALM Committee and the Credit Committee and also participates in the meetings of the Management Board 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, in cooperation with the CFO, to decide on the models and methods used in these controlling tasks, including their ongoing refinement and validation. The models and methods are designed and developed mostly by the Methods department, which also reports to the CFO. The Risk Committee must be informed of material changes to these methods.

A key instrument 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 an audit report 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, as well as 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.

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

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

The reporting of liquidity risk is also performed monthly as well as through the daily liquidity gap profile. Refinancing risk is reported weekly. 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 head of Finance, Risk Controlling and Operations and thereby to the CFO of Siemens Bank.

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

Procedures

The procedures and the internal control system for accounting processes are fully documented in process descriptions and work instructions. Accounting 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 accepted within the different fields of activity at Siemens Bank is at all times consistent with the available capital, both at the overall bank level and within individual types of risk. The Management Board of Siemens Bank specifies the capital resources necessary for the Bank based on the business and risk strategies and in accordance with the defined target returns and strategic risk requirements. As part of the Bank's 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 based on 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 from 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 defines its risk-taking potential with a value-based approach in accordance with the circular Regulatory Evaluation of Internal Risk Adequacy Concepts (Aufsichtsrechtliche 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, 2017, the risk-taking potential of Siemens Bank consisted of the following:

(€ million)	2017	2016
Tier 1 capital	1,000.0	1,000.0
Tier 2 capital	30.9	30.9
Additional risk-taking potential	538.0	362.1
Total risk-taking potential	**1,568.9**	**1,393.0**

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)

» Refinancing 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, 2017, the allocation of the risk-taking potential and the risk capital requirements are as follows:

(€ million)	2017		2016	
Risk-taking potential in stress scenario	**1,545.1**		**1,369.5**	
of which additional risk-taking potential in stress scenario	514.2		338.6	
of which core risk-taking potential	1,030.9		1,030.9	
	Risk-taking potential	Required risk capital	Risk-taking potential	Required risk capital
Risk capital for operational risk	20.0	19.2	22.0	22.0
Risk capital for default risk	600.0	315.4	600.0	308.6
Risk capital for market risk	20.0	1.5	20.0	2.3
Risk capital for refinancing risk	30.0	18.2	30.0	22.3
Normal case	**670.0**	**354.3**	**672.0**	**355.2**
Risk capital for operational risk		20.8		22.0
Risk capital for default risk		470.3		445.4
Risk capital for market risk		2.5		3.6
Risk capital for refinancing risk		35.1		39.4
Risk capital for business risk		129.4		87.5
Risk capital for prepayment risk		10.3		16.4
Buffer for other nonmaterial risks		20.0		20.0
Stress case total	**1,545.1**	**688.4**	**1,369.5**	**634.2**

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 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 €634.2 million to €688.4 million during the fiscal year, while the risk-taking potential under stress increased by €175.6 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 remained almost unchanged, in spite of an expansion of lending receivables. For fiscal year 2018, 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 methods are adjusted on the basis of both hypothetical and historical stress scenarios. The Bank analyzes both risk-specific scenarios and overarching scenarios that involve some or all of the risk types. Stress testing is integrated into the analysis of 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 in 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, 2017, the composition of regulatory capital at Siemens Bank was as follows:

(€ million)	2017	2016
Tier 1 capital		
Paid-up capital instruments	5.0	5.0
Adjustments due to the requirements for prudent valuation	-1.0	-0.7
Capital reserves and other eligible reserves	995.0	995.0
	999.0	**999.3**
Tier 2 capital		
Total tier 2 capital before capital adjustment items pursuant to section 10 (2b) KWG	30.9	30.9
Adjustment items for tier 2 capital pursuant to section 10 (6) and (6a) KWG	0.0	0.0
	30.9	**30.9**
Total modified available capital pursuant to section 10 (1d) KWG	**1,029.9**	**1,030.2**

Figure 6: Composition of regulatory capital according to the final financial statements as of September 30, 2017

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)	2017	2016
1. Default risk		
Standardized credit risk approach		
Central governments	0.0	0.0
Institutions	0.8	2.8
Corporates	398.1	357.9
Other	0.3	0.1
Overdues	0.0	4.1
Sum of default risk	**399.2**	**364.9**
2. Market risk		
Standardized approach	2.4	3.9
- of which: currency risk	2.4	3.9
Sum of market risk	**2.4**	**3.9**
3. Operational risk		
Basic indicator approach	19.1	17.7
Sum of operational risk	**19.1**	**17.7**
Total capital requirements	**420.7**	**386.4**

Figure 7: Regulatory capital requirements as of September 30, 2017

Siemens Bank must ensure a total capital ratio of 9.46% according to CRR in conjunction with the relevant provisions of 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, 2017, the total capital ratio (Pillar I) for Siemens Bank was 19.59% according to the final financial statements (previous year: 22.25% 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 19.00% according to the final financial statements (previous year: 21.58% according to the approved financial statements). Both ratios are therefore markedly higher than the total capital ratio of 9.46% specified by the regulatory requirements.

The difference between the required regulatory capital of €420.7 million (previous year: €386.4 million) and the required economic risk capital in the normal scenario of €354.3 million (previous year: €355.2 million) and in the stress scenario of €688.4 million (previous year: €634.2 million) is the result of Siemens Bank using its own risk models in the calculation of the required economic capital.

2.3 Default risk

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

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

Credit risk

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

Counterparty risk

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

Issuer risk

Issuer risk is the risk of deterioration in the credit rating of an issuer or the risk that an issuer will default, either partially or in full. On September 30, 2017, 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 obligo management. Intensified obligo management may also take place without a downgrade to a rating of 8+ or worse if other criteria for intensified obligo 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 obligo management unit. Rating category 9 covers all borrowers 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 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. When calculating the expected loss, pricing takes into account both the loan amount to be paid out and any weighted amounts from undrawn commitments so the Bank can estimate the business volume in the event of a default.

Unexpected loss

A credit-value-at-risk approach is used to analyze 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 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 in 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 is 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 obligo 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. These loan loss provision rates include rating-related assumptions on the probability of default and assumptions on the proportion of loss in the event of a default. The rating also factors in an assessment of country risk, with the result that any general 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, 2017, Siemens Bank had total recognized individual and general loan loss provisions of €17.7 million (previous year: €46.1 million). This decrease goes back to a substantial reduction in risky lending commitments that depend on the price of oil.

2.3.5 Analysis of the lending portfolio as of September 30, 2017

The required economic capital for default risk as of September 30, 2017, was €315.4 million. The allocated risk-taking potential was €600.0 million. The amount of required capital is largely determined by the credit 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. In particular, the major items in problem obligo management could be reduced.

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

As of September 30, 2017, the lending portfolio, based on the lending and guarantee 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 €5,399.0 million (previous year: €5,002.7 million), of which €4,869.6 million (previous year: €4,403.5 million) was attributable to corporate and project financing and €529.4 million (previous year: €599.2 million) to public-sector borrowers.

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

A breakdown of the Siemens Bank lending portfolio by credit rating as of September 30, 2017, is shown in the following table:

(€ million)	2017	2016
Rating category	Outstanding	Outstanding
1	61.1	31.0
2+	0.0	0.0
2	63.2	64.8
2-	569.9	673.0
3+	142.5	11.4
3	0.6	113.1
3-	85.2	80.7
4+	301.5	111.4
4-	264.6	628.8
5+	814.4	548.4
5-	744.5	475.1
6+	917.5	795.1
6-	663.7	543.2
7+	342.2	394.5
7-	292.3	259.8
8+	94.0	113.0
8-	32.7	20.7
9	9.3	104.3
10	0.0	34.3
Total	**5,399.0**	**5,002.7**

Figure 8: Lending portfolio by rating category

As of September 30, 2017, the investment-grade exposure (rating 1 through 5+) totaled €2,302.9 million (previous year: €2,262.6 million) and the non-investment-grade exposure (rating 5- through 10) totaled €3,096.1 million (previous year: €2,740.2 million). There was a total of €9.3 million of credit exposure with a high likelihood of default (rating 9) as of September 30, 2017 (previous year: €104.3 million). There were no defaults (rating 10) in the lending portfolio (previous year: €34.3 million). All transactions in the lending business are usually collateralized transactions. 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)	2017	2016
	Outstanding	Outstanding
EU excluding the eurozone	1,557.8	1,394.4
Germany	1,156.6	1,184.7
Europe excluding the EU	826.1	744.5
Asia	740.5	642.0
Eurozone excluding Germany	635.1	677.5
Australia/Oceania	317.7	219.8
Others	165.3	139.8
Total	**5,399.0**	**5,002.7**

Figure 9: Breakdown of lending portfolio by geographical area

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 (either 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 an 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 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, and 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. 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, 2017

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, 2017. 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, 2017, this buffer amounted to €767.2 million (previous year: €770.9 million).

Within strict limits, deposits are also used for the refinancing credit business. Given the largely maturity-matched refinancing of the lending business, Siemens Bank had, as of September 30, 2017, a liquidity value at risk of €18.2 million (previous year: €22.3 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 the 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, 2017

As of September 30, 2017, the required economic capital for market risk was €1.5 million (previous year: €2.3 million). 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, 2017

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, 2017, was €19.2 million (previous year: €22.0 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; therefor,e the Management Board manages this risk on a bank-wide level. An essential driver behind the development of business risk was the net currency income. While EUR/USD risk development was within the expected range of variation, EUR/GBP risk development was affected negatively by the Brexit decision.

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, since March 1, 2017, also in Singapore. These branch offices mainly operate in the lending 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 more 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 2017 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 2017 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 August 2017. 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.


Grid Connected

4 Outlook

Trends in the economic environment

In an economic forecast published during the fall of 2017, the Economic and Monetary Policy Committee of the Association of German Banks (Ausschuss für Wirtschafts- und Währungspolitik des Bundesverbandes deutscher Banken) predicts that the global economy will grow by 3.6% over the 2017 calendar year (last year's forecast: 3.3%). For the next calendar year, the forecast expects a further slight acceleration of growth to 3.8%. In this context, the Committee stresses the comparably good condition of the global economy, which rests on a broad regional basis and has not been showing any signs of overheating. The Association continues to observe varying developments in the various economic regions.

Growth may increase slightly in the emerging markets in 2018. This expectation results mainly from the fact that the recession is gradually being overcome in many emerging markets such as Russia and India. For China, the Committee sees positive growth signals, in spite of a decline in investments by strongly indebted state-owned companies and weaker growth in the building sector. Similarly positive growth signals are described by a recent study issued by the United Nations Economic and Social Commission for Asia and the Pacific (UN ESCAP) for the Asian region overall. The industrialized countries also are expected to produce some positive economic momentum. The economy in the eurozone is predicted to grow by 2.1% in the 2017 calendar year (forecast for previous year: 1.3%). For the following year, growth is expected to reach 1.9%, which is significantly stronger than expected in the past, but will be dampened by currency effects due to the strong euro. Deviating from developments in the past, this growth momentum is not expected to come entirely from the northern euro countries; the southern euro states, such as Spain and Italy, are currently also showing positive development. In the United Kingdom, HM Treasury's September forecast (which is based on various other forecasts) predicts that the country will see economic growth of 1.6% over the whole of 2017 and 1.4% in 2018. Even though these forecasts represent a certain recovery from last year's Brexit shock, they still are worse than the current forecasts for the eurozone.

Siemens Bank believes that the current growth forecasts are significantly above the forecasts observed last year, reflecting a significantly more positive underlying mood compared with one year ago.

Opportunities and risks in the 2018 fiscal year

Siemens Bank shares the expectation that the economic recovery will continue in 2018 and expects significant positive momentum for its business operations. Siemens Bank believes that the demand for project finance and investment loans will remain on a level that is as a minimum similar to that of the previous years. With the opening of the new Singapore branch, the Bank furthermore sees additional development and growth opportunities in the intensified expansion of its business activities in Asia. 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 up to now. 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 consistent risk management.

Nevertheless, a series of elements of uncertainty remains that Siemens Bank believes may lead to significant negative deviations from the current forecasts. The conflict over the North Korean nuclear program and the Iran nuclear deal, the arduous progress of negotiations on the withdrawal of the United Kingdom from the EU (Brexit), and the uncertain further development in Spain or the region of Catalonia, respectively, are just some examples of geopolitical areas of conflict. In order to analyze and manage the Brexit effects, Siemens Bank has initiated a separate project. Also, populism and protectionism as well as terrorism are significant elements of uncertainty that may have a negative impact on economic development. Siemens Bank believes that another risk factor lies in the persistently intensive competition in many regional markets for project and investment funding 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 with the effect from positive developments in other markets.

Business performance of Siemens Bank in 2018

After a challenging but successful 2017 fiscal year, Siemens Bank expects further significant growth of its lending portfolio for 2018, and, associated with this, a significant increase of its profitability before risk allowances.

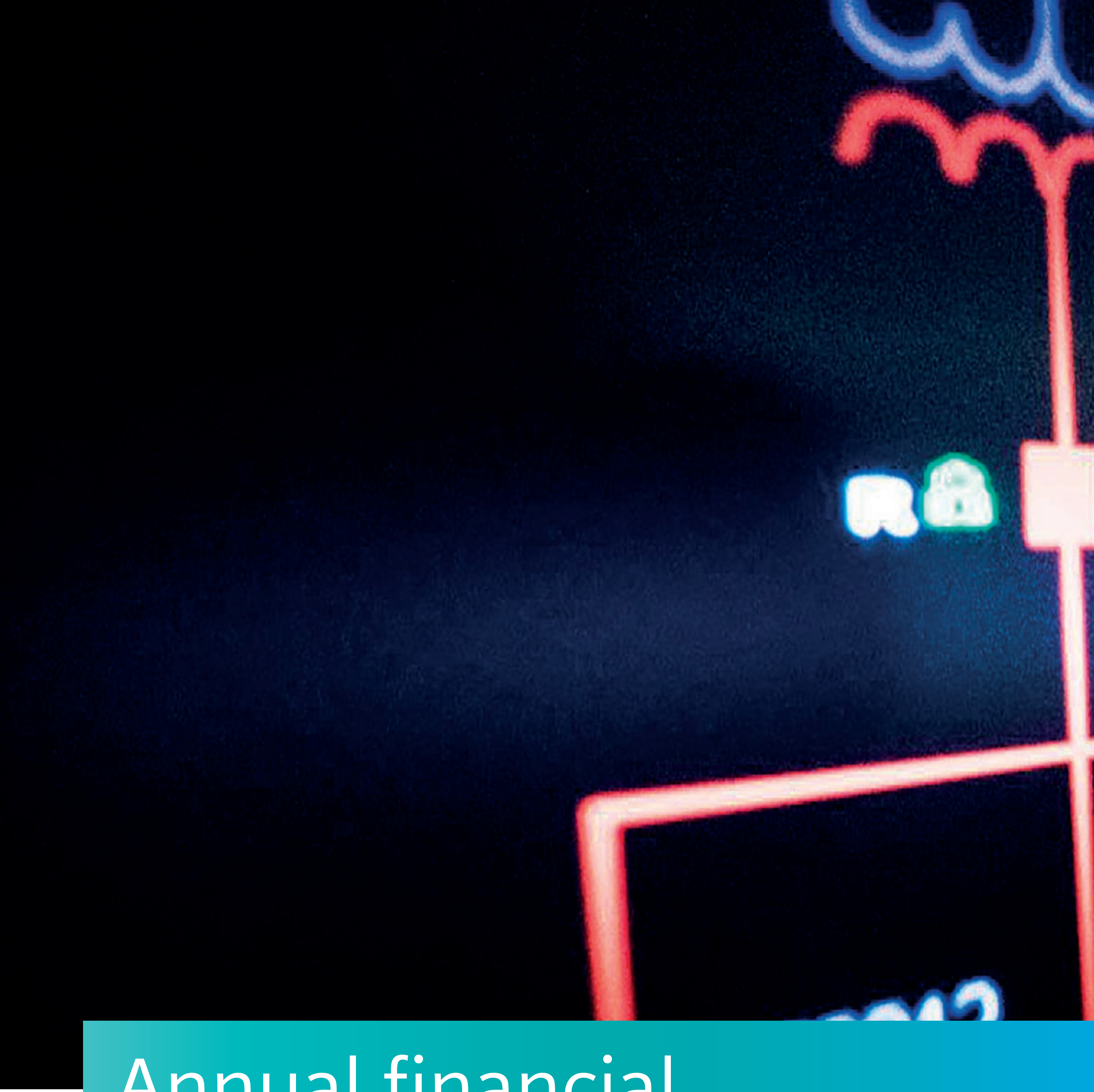
For the coming 2018 fiscal year, Siemens Bank expects the liquidity investments included in the loans and advances to banks, customers and central banks, and, associated with this, the short-term deposits of Siemens AG and its subsidiaries to remain on a comparable level. However, Siemens Bank believes that a further significant growth in loans and advances to customers in the lending business, which is planned to once more be significantly above the growth rates of the 2017 fiscal year, will have a 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 are still under strong pressure due to high liquidity in the loan markets. Siemens Bank expects that its refinancing in the 2018 fiscal year will continue to be provided largely by Siemens AG and its subsidiaries.

The Bank expects the business pillar risk-management and processing services, and thus net fee and commission income, to only grow marginally, thus remaining on last year's level. The contribution to earnings will therefore continue to be of subordinate significance.

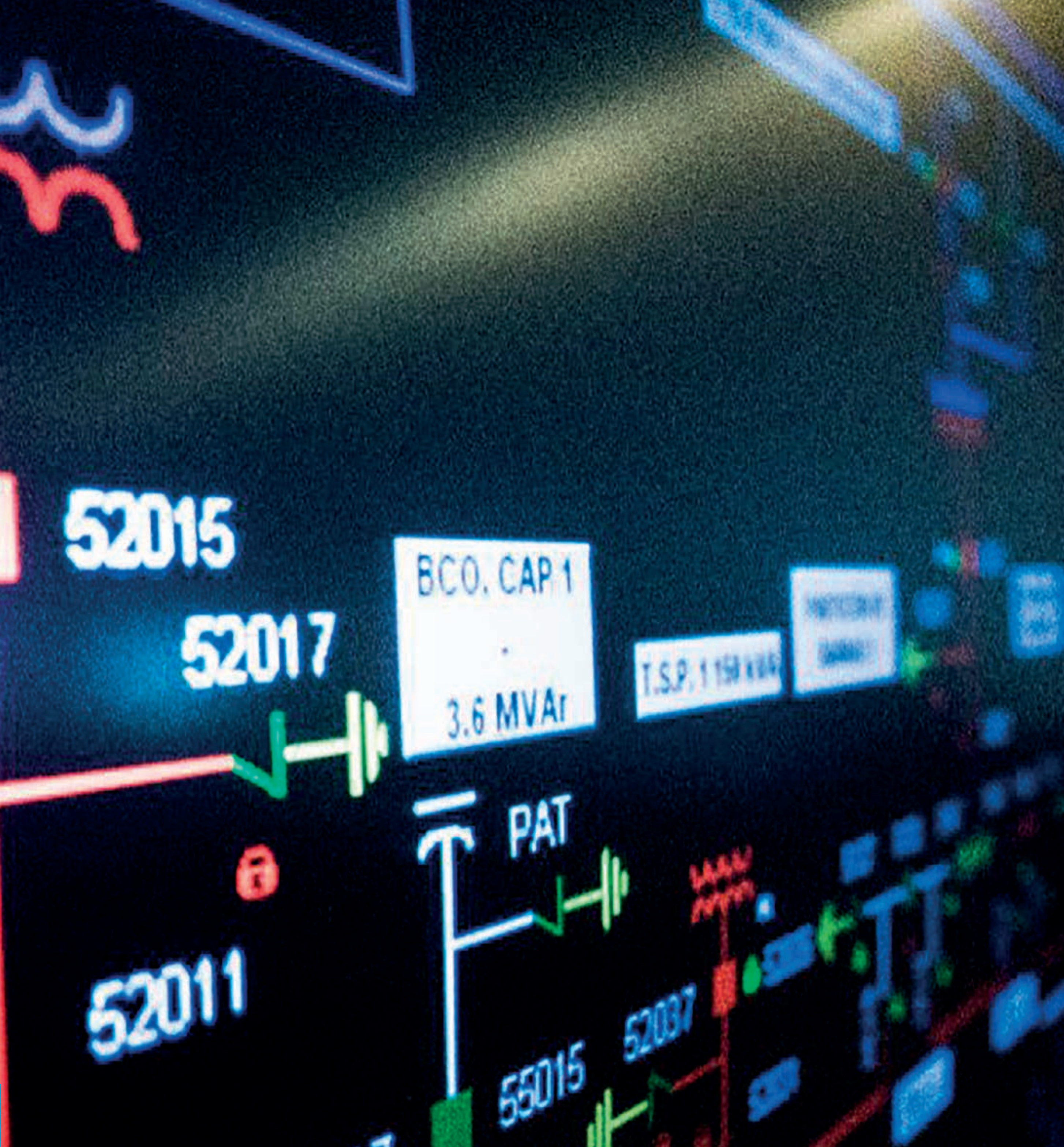
Through cost discipline, Siemens Bank intends to again achieve an only relatively slight increase in general administration expenses in relation to business development for the 2018 fiscal year. Expected additional costs from the expansion of business activities in Asia and the pursued growth of business in other regions are intended to be curbed through reasonable savings in other areas. In particular, general administration 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.

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 central markets will result in a higher level of allowances for losses on loans and advances compared with the 2017 fiscal year.

Overall, Siemens Bank therefore expects that the positive effects from the growth of the lending portfolio and the increased risk allowances will almost offset each other, so that the net operating income before income tax will remain almost unchanged. 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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Income statement

of Siemens Bank GmbH, Munich, for the fiscal year from October 1, 2016, to September 30, 2017 (€'000)

		Notes to the financial statements		2017	2016
1	**Interest income from**	1			
	a) Lending and money market business		170,927		162,182
	of which negative interest income €678 thousand (previous year: €332 thousand)				
	b) Fixed-income securities and registered debt		423		923
				171,350	163,104
2	**Interest expense**	1		**(54,564)**	**(49,379)**
	of which: positive interest expenses €3,162 thousand (previous year: €2,008 thousand)				
3	**Fee and commission income**	1, 2		**23,023**	**19,286**
4	**Fee and commission expense**			**(158)**	**(60)**
5	**Other operating income**	1, 3		**0**	**213**
6	**General administration expenses**				
	a) Personnel expenses				
	aa) Wages and salaries		(27,846)		(27,235)
	ab) Social security and expenses for pension and support obligations		(4,503)		(4,224)
	of which in respect of pensions €(2,663) thousand (previous year: €(2,015) thousand)			(32,349)	(31,459)
	b) other administrative expenses			(23,378)	(21,817)
				(55,727)	(53,276)
7	**Depreciation and write-downs on intangible assets and property and equipment**			**(32)**	**(18)**
8	**Other operating expenses**	3		**(2,795)**	**(3,589)**
9	**Write-downs of receivables and certain securities and additions to provisions in the lending business**			**(7,280)**	**(30,365)**
10	**Income from ordinary operations**			**73,817**	**45,916**
11	**Taxes on income**	4		**(8,736)**	**(5,747)**
	of which deferred taxes €0 thousand (previous year: €179 thousand)				
12	**Other taxes, if not included under item 8**			**(7)**	**(5)**
13	**Profit transferred under a profit-and-loss transfer agreement**	5		**(65,074)**	**(40,164)**
14	**Annual net profit**			**0**	**0**
15	**Distributable profit**			**0**	**0**

Balance sheet

of Siemens Bank GmbH, Munich, as of September 30, 2017 (€'000)

Assets		Notes to the financial statements		2017	2016
1	**Cash**				
	Credit balance with central banks of which with Deutsche Bundesbank €21,050 thousand (previous year: €14,522 thousand)		37,887		14,522
				37,887	**14,522**
2	**Debt instruments of public institutions and bills of exchange that are approved for refinancing with central banks**	6			
	Treasury bills and non-interest-bearing treasury bonds as well as similar debt instruments of public institutions of which with Deutsche Bundesbank €0 thousand (previous year: €0 thousand)		12,465		0
				12,465	**0**
3	**Loans and advances to banks**	7			
	a) Sight deposits		47,542		15,480
	b) Other receivables		99,234		45,698
				146,776	**61,178**
4	**Loans and advances to customers**	8		**5,363,842**	**4,919,897**
	including secured by liens €0 thousand (previous year: €0 thousand) including municipal loans €5469,949 thousand (previous year: €545,123 thousand)				
5	**Bonds and other fixed-income securities**	9			
	Commercial paper from other issuers of which eligible as collateral with Deutsche Bundesbank €0 thousand (previous year: €43,880 thousand)		0		50,025
				0	**50,025**
6	**Property and equipment**	10		**93**	**42**
7	**Other assets**	11		**4,396**	**1,423**
8	**Prepaid expenses and deferred income**	12		**3,578**	**3,008**
Total assets		**19**		**5,569,037**	**5,050,095**

	Liabilities	Notes to the financial statements		2017	2016
1	**Amounts due to banks**	**13**			
	With agreed maturities or notice period		12,466		0
				12,466	**0**
2	**Amounts due to customers**	**14**			
	other amounts due				
	a) Sight deposits		3,218		2,340
	b) With agreed maturities or notice period		4,416,510		3,942,844
				4,419,728	**3,945,184**
3	**Other liabilities**	**15**		**70,088**	**44,095**
4	**Prepaid expenses and deferred income**	**12**		**41,692**	**42,273**
5	**Provisions**	**16, 17**			
	a) Provisions for pensions and similar obligations		10,107		8,646
	b) Provisions for taxes		4,486		1,966
	c) Other provisions		10,470		7,931
				25,063	**18,543**
6	**Equity**	**18**			
	a) Subscribed capital		5,000		5,000
	b) Capital reserves		995,000		995,000
				1,000,000	**1,000,000**
	Total liabilities	**19**		**5,569,037**	**5,050,095**
1	**Contingent liabilities**				
	Liabilities under guarantees and warranty agreements	20		3,943	2,191
2	**Other obligations**				
	Irrevocable loan commitments	20		976,196	822,740

Notes to the financial statements


SIEMENS

Notes to the financial statements

of Siemens Bank GmbH, Munich, for the fiscal year from October 1, 2016, to September 30, 2017

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, 2017, 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. Specific loan loss provisions reflect individual loan defaults expected in connection with a loan exposure at risk of default. General loan loss provisions are based on borrower credit ratings, rating-related probability of default, and the proportion of loss in the event of a default.

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.

Property and equipment

Property and equipment is measured at cost and reduced by depreciation on a straight-line basis over the estimated useful life of the property and equipment concerned. Movable fixed assets that can be used independently and whose individual cost is up to and including €150 are immediately expensed. In the case of additions with an individual cost of more than €150 but no more than €410, the items concerned are recognized on the balance sheet but written off in full in the year of acquisition.

Cash and cash equivalents and other assets

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

Liabilities

Liabilities are carried at their settlement amounts as of the balance sheet date. Pursuant to section 11 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, 2017, Siemens Bank, as in previous years, uses a ten-year average. During the previous year, Siemens had changed the valuation from a seven-year to a ten-year average. Based on the existing profit-and-loss transfer agreement with Siemens AG, income from this adjustment is not subject to the dividend payout restriction.

Pursuant to the German Occupational Pensions Act (BetrAVG) and the UK Pensions Act 1995, Siemens Bank continues to be liable at a subsidiary level for pensions that are provided via an indirect route. If the relevant assets of the pension fund (or the Pensionskasse or Unterstützungskasse) 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 administration expenses, social security, post-employment and other employee benefit costs, and under other operating expenses. In addition, these assets are offset against the corresponding underlying obligation. If this results in a surplus obligation, this obligation is reported under provisions. If the value of assets exceeds the obligations, the amount is reported as an excess of plan assets over pension liabilities.

Provisions for taxes and other provisions

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

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

For all interest-rate-related financial instruments in the banking book, Siemens Bank provides evidence – in accordance with the principle of loss-free valuation – that no losses will be incurred in the future from contracted interest-rate positions. This is done by comparing the net present value of the banking book with its net carrying amount, taking into consideration expected losses and present value general administration expenses from the resolution of the existing portfolio. If the net carrying amount is greater than the net present value, there is a requirement for the recognition of a corresponding provision. As in the previous year, there was no requirement as of September 30, 2017, 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 %	2017	2016
Germany	11	14
Elsewhere	89	86

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)	2017	2016
Risk management and processing services for affiliated companies	21,300	18,473
Risk management services and credit business services for third parties	1,723	814
Total	**23,023**	**19,286**

3 Other operating income and expense

Other operating expense largely comprises expenses from currency translation, unwinding the discount on provisions and in connection with additions to certain provisions. Expenses arising from currency translation amounted to €1,541 thousand (previous year: €1,809 thousand). Expenses from unwinding the discount on provisions amounted to €608 thousand (previous year: €348 thousand).

Other operating income in the previous year comprised income from the dissolution of provisions.

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 redesign 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, 2017, this results in a surplus of deferred tax assets.

The Singapore branch also shows a surplus of deferred tax assets as of September 30, 2017, which results mainly from tax losses carried forward from the year of incorporation.

The valuation of deferred taxes is based on a tax rate of 31.16% in Germany and 17.00% in the United Kingdom and in Singapore.

As in the previous year, there was an overall surplus of deferred tax assets as of September 30, 2017. 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 €65,074,012.95, 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)	2017	2016
Loans and advances to banks with maturities of	**146,776**	**61,178**
(excluding loan loss allowances and interest accruals)		
up to and including 3 months	146,776	61,178
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)	2017	2016
Loans and advances to customers with maturities of	**5,402,914**	**5,004,669**
(excluding loan loss allowances and interest accruals)		
up to and including 3 months	149,798	275,412
more than 3 months and up to 1 year	765,878	684,897
more than 1 year and up to 5 years	1,739,919	1,611,487
more than 5 years	2,747,319	2,432,874

Loans and advances to customers include loans and advances to affiliated companies with a value of €373,697 thousand (previous year: €331,486 thousand). Within this total of loans and advances to customers, an amount of €1,286 thousand is owed by the shareholder (previous year: €309 thousand).

9 Bonds and other fixed-income securities

This item comprised unlisted, short-term bonds (commercial paper) with a residual maturity of less than one year.

10 Statement of changes in fixed assets

The changes in property and equipment over the 2017 fiscal year were 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

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

(€'000)	Cost				
	Oct. 1, 2015	Additions	Transfers	Disposals	Sep. 30, 2016
Property and equipment	**93**	**13**	**0**	**(5)**	**102**
Office furniture and equipment	93	13	0	(5)	102

(€'000)	Depreciation and write-downs				Carrying amount	
	Oct. 1, 2015	Sep. 30, 2016	Current year	Disposals	2016	2015
Property and equipment	**(44)**	**(60)**	**(18)**	**2**	**42**	**49**
Office furniture and equipment	(44)	(60)	(18)	2	42	49

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

11 Other assets

Other assets mainly comprise accrued interest from interest-rate swaps of €953 thousand (previous year: €934 thousand) and receivables arising from pending incoming payments, from the provision of services to third parties and to subsidiaries of Siemens AG.

12 Prepaid expenses and deferred income

(€'000)	2017	2016
Prepaid expenses	**3,578**	**3,008**
Premium on loans and advances	2,425	2,482
Other deferred income	1,153	526
Deferred income	**41,692**	**42,273**
Discount on loans and advances	13,282	20,196
Other deferred income	28,410	22,077

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

13 Amounts due to banks

(€'000)	2017	2016
Amounts due to banks	**12,466**	**0**
(excluding interest accruals)		
up to and including 3 months	12,466	0
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

14 Amounts due to customers

(€'000)	2017	2016
Amounts due to customers with maturities of	**4,408,304**	**3,936,488**
(excluding interest accruals)		
up to and including 3 months	464,906	682,700
more than 3 months and up to 1 year	807,873	944,190
more than 1 year and up to 5 years	2,574,630	1,541,434
more than 5 years	560,894	768,164

Of the amounts due to customers, €4,349,729 thousand (previous year: €3,740,716 thousand) is accounted for by transactions with affiliated companies. Within this total of amounts due to customers, an amount of €3,874,313 thousand is due to the shareholder (previous year: €3,595,823 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.

15 Other liabilities

The breakdown of other liabilities is as follows:

(€'000)	2017	2016
Other liabilities	**70,089**	**44,095**
Liabilities from profit transfer to the shareholder	65,097	40,164
Withholding tax and duties to be paid	3,256	1,975
Personnel-related obligations	1,713	1,339
VAT liabilities and other items	23	617

All other liabilities have terms of up to one year.

16 Provisions for pensions and similar obligations

Siemens Bank provides various forms of occupational pensions for the employees in Germany and 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 of €885 thousand as of September 30, 2017, (previous year: €766 thousand) and a cost value of €729 thousand (previous year: €644 thousand), are therefore offset against the pension obligations. Income and expenses each in the amount of €100 thousand (previous year: €172 thousand) were netted.

In addition, on behalf of the employees at the London branch, Siemens Bank participates in the pension scheme operated by the Siemens Group for employees in the United Kingdom. Contributions are paid into this pension program in the same way as those to the BSAV. Where employees have been given further fixed pension entitlements in individual cases, these pension entitlements are covered directly by the Siemens Pensions Trust. Siemens Bank only has an indirect liability for these obligations if the resources of the Trust turn out to be inadequate to cover the pension obligations. Of the assets assigned to the Trust, which had a fair value of €1,849 thousand (previous year: €1,848 thousand), an amount equivalent to the amount of the pension obligations is therefore offset against the pension obligations.

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

For the 2017 fiscal year, the total settlement amount for the pension provisions amounted to €12,362 thousand (previous year: €10,616 thousand), of which €2,255 thousand (previous year: €1,970 thousand) was accounted for by indirect obligations. The actuarial measurement of the settlement amount was based on a number of variables including a discount rate of 3.77% (ten-year average) and 2.91% (seven-year average), respectively. Last year, the discount rate was 4.08% (ten-year average) and 3.37% respectively (seven-year average). Other variables used as a basis were a salary growth rate of 2.25% per annum (previous year: 2.25%) and a pension growth rate of 1.5% per annum (previous year: 1.5%). The Heubeck 2005 G modified mortality tables are used to determine the probability of death.

The adjustment of the discount rate from a seven-year average to a ten-year average results in a difference of €1,586 thousand (previous year: €786 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 €50 thousand (previous year: €30 thousand) was offset against free capital provisions in order to determine the dividend payout restriction.

17 Other provisions

The changes in other provisions over the 2017 fiscal year were 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

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

(€'000)	Oct. 1, 2015	Transferred	Utilized
Other provisions	**8,633**	**(191)**	**(7,278)**
of which with maturities up to 1 year	7,766	105	(7,278)

(€'000)	Reversed	New	Sep. 30, 2016
Other provisions	**(492)**	**7,258**	**7,931**
of which with maturities up to 1 year	(490)	6,469	6,571

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)	2017	2016
Other provisions	**10,470**	**7,931**
Personnel-related provisions	9,035	7,672
Provisions for year-end costs	1,435	184
Project-related provisions	0	75

18 Equity

As last year, there were no changes to the components of equity in the 2017 fiscal year.

Due to plan adjustments of the pension plans from deferred compensation schemes, €50 thousand of the capital provisions are subject to a payout restriction (previous year: €30 thousand).

19 Assets and liabilities denominated in foreign currency

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

(€'000)	2017	2016
Assets denominated in foreign currency	**2,976,445**	**2,567,936**
Liabilities denominated in foreign currency	**2,971,677**	**2,598,915**

Other disclosures

20 Off-balance-sheet transactions

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

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

21 Derivative financial instruments

Siemens Bank held the following derivatives as of September 30, 2017:

	Nominal amount				
	2017			Total amount	
(€'000)	≤ 1 year	> 1 – 5 years	> 5 years	2017	2016
Interest-rate derivatives					
OTC interest-rate swaps	630,000	365,000	0	995,000	705,000
Embedded floors	11,837	0	0	11,837	18,389
Currency derivatives					
OTC swaps	0	0	0	0	292

The fair values of the derivatives as of September 30, 2017 were as follows:

	Market values (including accrued interest)			
	Positive		Negative	
(€'000)	2017	2016	2017	2016
Interest-rate derivatives				
OTC interest-rate swaps	990	788	(23)	(16)
Embedded floors	22	0	0	0
Currency derivatives				
OTC swaps	0	4	0	0

In the 2017 fiscal year, Siemens Bank designated a fixed-interest deposit and an interest swap transaction OTC with an amount of €365,000 thousand as an HGB accounting group to hedge interest-induced market risks. This accounting group was used to hedge negative valuation effects from interest-rate risks amounting to €784 thousand. The effectiveness of the accounting group is proved by a comparison of the interest-induced changes in market value. For recognition, Siemens Bank has applied the net hedge presentation method, according to which the ineffective part of the accounting group is to be recognized using the imparity principle. For this purpose, Siemens Bank recognizes provisions for onerous contracts amounting to €1,169 thousand, which are recorded under other provisions as a component of the provisions for year-end costs.

For short-term interest swap transactions OTC that are not incorporated into accounting groups, Siemens Bank recognized provisions for onerous contracts amounting to €138 thousand (previous year: €84 thousand), which are also recorded under other provisions as a component of the provisions for year-end costs.

22 Other financial obligations

Siemens Bank purchases services from affiliated companies and third parties under the terms of outsourcing and purchasing agreements. The following financial obligations are expected for the 2018 fiscal year as a result of these service relationships:

(€'000)	2018
To affiliated companies	20,715
To third parties	4,471
	25,186

23 Employees

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

Employees	2017	2016
Siemens Bank GmbH	**201.7**	**192.4**
Munich branch (as well as Nuremberg and Erlangen)	**161.9**	**158.9**
Employment contracts	168.0	165.0
of which part-time	22.6	22.0
London branch	**31.2**	**33.5**
Employment contracts	31.2	33.6
of which part-time	0.0	0.2
Singapore branch	**8.6**	**0.0**
Employment contracts	8.6	0.0
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.

24 Members of the Management Board and Supervisory Board

The General Meeting has appointed the following members of the Management Board:

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

» Dr. Ingeborg Hampl, member of the Management Board and Chief Risk Officer of Siemens Bank

» Dr. Peter Rathgeb, member of the Management Board and Chief Financial Officer of Siemens Bank

Roland Chalons-Browne did not receive any remuneration for his activities in the 2017 fiscal year.

The general meeting has set up a Supervisory Board with the following members:

» Dr. Peter Moritz (until October 31, 2016), member of the Management Board of Siemens Financial Services GmbH, Munich, and Chief Financial Officer of the Financial Services Division of Siemens AG.

» Veronika Bienert (since November 1, 2016), 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, Chief Executive Officer of Siemens Treasury GmbH, Munich, and Corporate Treasurer of Siemens AG.

Veronika Bienert was elected to succeed Dr. Peter Moritz as the chairperson, and Hans-Peter Rupprecht was elected as the deputy chairman of the Supervisory Board. Neither acting nor retired members of the Supervisory Board received any remuneration or pension entitlements from Siemens Bank for their activities in the 2017 fiscal year.

The Supervisory Board has set up an audit committee with the same members and functions.

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

» Chief Executive Officer of Siemens Financial Services GmbH, Munich

» Member 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

25 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 HGB, Siemens Bank did not enter into any transactions in the year under review with related parties on terms that were other than on an arm's length basis.

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

26 Events after the balance sheet date

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

Munich, December 8, 2017
The Management Board

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

Audit opinion

Translation of the German audit opinion concerning the audit of the annual financial statements and of the management report of Siemens Bank GmbH, Munich, comprising the balance sheet as of September 30, 2017, and the income statement for the period from October 1, 2016, to September 30, 2017, as well as the notes prepared by management of Siemens Bank GmbH.

Independent Auditor's Report

To Siemens Bank GmbH, Munich

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

Audit opinions

We have audited the annual financial statements of Siemens Bank GmbH, Munich – comprising the balance sheet as of September 30, 2017, and the income statement for the fiscal year October 1, 2016, to September 30, 2017, as well as the notes, including the presentation of the accounting and valuation methods. We have also audited the management report of Siemens Bank GmbH, Munich, for the fiscal year October 1, 2016, to September 30, 2017.

According to our assessment, based on the findings obtained during the audit,

» the enclosed annual financial statements comply in all material respects with German commercial law as applicable to corporations, and, in accordance with generally accepted German accounting principles, give a true and fair view of the net assets and financial position of the Company as of September 30, 2017, and of its results of operations for the fiscal year from October 1, 2016, to September 30, 2017, and

» the enclosed management report provides a true and fair view of the state of affairs of the Company. This management report complies in all material aspects with the annual financial statements, complies with German legal requirements, and correctly describes the risks and opportunities of the future development.

In accordance with Section 322 (3) 1 Commercial Code (Handelsgesetzbuch, HGB), we hereby confirm that our audit has not led to any objections regarding the correctness of the annual financial statements and of the management report.

Basis for the audit opinions

We have carried out our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and with the EU Audit Regulation (No. 537/2014, hereinafter: "Audit Regulation"), taking into account the generally accepted German auditing principles as defined by the German Institute of Auditors (IDW). We have carried out the audit of the annual financial statements by additionally taking into account the International Standards on Auditing (ISA). Our responsibilities under these provisions, principles and standards are described in more detail in section "auditor's responsibilities for the audit of the annual financial statements and of the management report" of our audit opinion. We are independent of the Company, in accordance with the provisions of European law, German commercial law and the professional rules and have complied with our other professional obligations under German law in accordance with these requirements. In addition to this, we hereby confirm, pursuant to Article 10 (2f) of the Audit Regulation that we have not provided any prohibited non-audit services pursuant to Article 5 (1) of the Audit Regulation. We are of the opinion that the audit documents obtained are sufficient and suitable to serve as a basis for our audit opinion on the annual financial statements and on the management report.

Key audit matters of the audit of the annual financial statements

Key audit matters are matters that, according to our due discretion, were most significant during our audit of the annual financial statements for the fiscal year from October 1, 2016, to September 30, 2017. These issues were taken into consideration in the context of our audit of the annual financial statements in their entirety, as well as during the preparation of our audit opinion on the aforesaid; we shall not issue a separate audit opinion on these issues.

Below, we describe the key audit matters that, in our opinion, have particular significance:

Identification and evaluation of impaired loans and advances to customers

Reasons for the classification as a particularly significant audit matter

The identification and evaluation of impaired loans and advances to customers is a material area in which the management makes discretionary decisions. The identification of impaired loans and advances to customers and the determination of expected future payments in order to evaluate the impaired loans and advances to customers are connected with uncertainties and contain various assumptions and influencing factors that open up room for discretionary decisions or require estimates, in particular the appraisal of the customers' financial situation, expectations regarding future inflow of funds, determination of fair values for provided collateral and the formation of expectations regarding net sales prices of loan receivables in the market. For impaired receivables, such discretionary decisions during the determination of the described assumptions may have a significant effect on the amount of the value adjustment to be made.

In our audit, we have classified the "identification and evaluation of impaired loans and advances to customers" as a particularly significant audit matter, due to the amount of the individual loans and the evaluation sensitivity of the underlying assumptions and the associated risk of materially incorrect information.

Audit approach

Identification of impaired loans and advances to customers

We have examined the concept and effectiveness of the reporting-related internal control systems with regard to the identification of impaired loans and advances to customers and have tested the implemented controls. The focus of our audit work was on the processes for the determination of outstanding payments, the processes for analyzing information on the customers' financial situation, and the processes for the determination and analysis of ad hoc information on countries that have shown indications of a significant deterioration in credit quality.

Evaluation of impaired loans and advances to customers

During our audit, the focus was in particular on the estimates made by the management regarding expected cash inflows and on the determination of the fair values of provided hard and personal collateral for the evaluation of impaired loans and advances to customers. The decisive aspects in this context are mainly the risk measurement processes implemented by the Bank, in particular the determination of individual default amounts per customer loan for the expected default, and the estimate values incorporated in the calculation (amount and time of expected cash inflows, fair values of existing collateral, and expectations regarding net sales prices of loan receivables in the market). As part of our audit work, we have carried out checks to validate the estimates regarding the expected cash inflows for the impaired receivables on a sample basis, in particular by comparing the amounts of the expected cash inflow with the restructuring agreements and existing historical data, and analyzing their sensitivity in relation to the evaluation. In order to assess the legal validity of the provided hard and personal collateral, we have compared the Siemens Bank GmbH data with the underlying contract data. Where available, we have compared the expected net sales prices of loan receivables with market data. On a sample basis, we have mathematically reproduced the calculation of the amount of the impairment.

Our audit procedures have not resulted in any objections regarding the identification and evaluation of impaired loans and advances to customers.

Reference to related information

The Company's information on the evaluation of impaired loans and advances to customers are provided in the notes under "accounting policies, loans and advances to customers".

Other information

The legal representatives are responsible for the following other information:

Report by the Board on the development of business in the foreword of the annual report

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and, accordingly, we do not issue an audit opinion or any other form of audit conclusion in this respect.

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

» shows any material discrepancies in comparison with the annual financial statements, the management report or the findings obtained through our audit, or

» appears to be represented incorrectly in any other material aspects.

Should we, based on the work carried out by us, come to the conclusion that such other information is represented incorrectly in any material aspect, we are obligated to report this fact. We have nothing to report in this respect.

Responsibility of the legal representatives and of the Supervisory Board for the annual financial statements and the management report

The legal representatives are responsible for preparing the annual financial statements in a manner that complies in all material aspects with the German commercial law provisions as applicable to corporations, as well as for the annual financial statements giving a true and fair view of the net assets, financial position and results of operations of the Company in accordance with generally accepted German accounting principles. Also, the legal representatives are responsible for the internal controls that they, in accordance with generally accepted German accounting principles, have defined as being necessary in order to allow the preparation of annual financial statements that are free of any material – intentional or unintentional – misstatements.

When preparing the annual financial statements, the legal representatives are responsible for assessing the Company's ability to continue as a going concern. Also, they are responsible for providing information on facts in connection with the continuation as a going concern, if applicable. In addition to this, they are responsible for conducting the accounting processes on the basis of the going concern accounting principle, except if factual or legal circumstances stand against this.

Also, the legal representatives are responsible for preparing the management report, which has to give a full and fair view of the state of affairs of the Company, has to conform in all material respects with the annual financial statements, has to comply with German legal requirements and has to correctly represent the risks and opportunities of the future development. Furthermore, the legal representatives are responsible for the precautions and measures (systems) that they have defined as necessary in order to allow the preparation of a management report in accordance with applicable German legal requirements, and in order to be able to provide sufficient and suitable evidence for the statements in the management report.

The Supervisory Board is responsible for supervising the accounting process of the Company for the preparation of the annual financial statements and of the management report.

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

Our objective is to obtain sufficient certainty as to whether the annual financial statements overall are free of any material – intentional or unintentional – misstatements, and whether the management report gives a true and fair view of the state of affairs of the Company, complies in all material respects with the annual financial statements and with the findings obtained during the audit, complies with German legal requirements and correctly represents the risks and opportunities of the future development, as well as to issue an audit opinion that comprises our audit opinions on the annual financial statements and on the management report.

"Sufficient certainty" means a high level of certainty, but does not provide a guarantee that an audit carried out in accordance with Section 317 HGB and the Audit Regulation, taking into account the German auditing standards as defined by the German Institute of Auditors (IDW), supplementarily taking into account the ISA, will always identify any material misstatements. Misstatements may result from violations or inaccuracies, and are considered to be material if it can reasonably be expected that they will, individually or in total, have an influence on the commercial decisions of addressees that are taken on basis of these annual financial statements and of the management report.

During our audit, we observe due discretion and maintain skepticism. In addition to this

» we identify and assess the risk of material – intentional or unintentional – misstatements in the annual financial statements and in the management report, plan and execute audit procedures in reaction to such risks, and obtain audit evidence that is sufficient and suitable to serve as a basis for our audit opinions. The risk that material misstatements may not be identified is higher in the event of violations than in the event of inaccuracies, as violations may include fraudulent collusion, forgeries, intentional incompleteness, misleading representations and/or the bypassing of internal controls;

» we obtain an understanding of the internal control system with relevance for the audit of the annual financial statements and the precautions and measures with relevance for the audit of the management report, in order to plan audit procedures that are adequate under the circumstances, but not with the aim of issuing an audit opinion on the effectiveness of these systems as used by the Company;

» we assess the adequacy of the accounting methods applied by the legal representatives and the justifiability of the estimate values and related information provided by the legal representatives;

- we draw conclusions regarding the adequacy of the going concern accounting principle as applied by the legal representatives and, based on the audit evidence obtained, whether there are any material uncertainties in connection with events or facts that may lead to significant doubt regarding the Company's ability to continue as a going concern. Should we come to the conclusion that there are material uncertainties, we are required to mention the relevant information from the annual financial statements and the management report in our audit opinion, or, should such information be inadequate, to modify our relevant audit opinion. We have drawn our conclusions on the basis of the audit evidence obtained by the date of our audit opinion. Future events or facts may, however, result in the Company being unable to continue as a going concern;
- we assess the overall representation, the structure and the contents of the annual financial statements, including the information provided, as well as whether the annual financial statements represent the underlying transactions and events in such a manner as to ensure that the annual financial statements, taking into account the generally accepted German accounting principles, give a true and fair view of the net assets, financial position and results of operations of the Company;
- we assess the compliance of the management report with the annual financial statements, its compliance with the law and the view it gives of the state of affairs of the Company;
- we carry out audit procedures on the future-oriented information in the management report as provided by the legal representatives. Based on sufficient and suitable audit evidence, we in particular review the material assumptions that the legal representatives used as a basis for the future-oriented statements, and assess the reasonable derivation of the future-oriented statements from these assumptions. We do not issue an independent audit opinion on the future-oriented statements, nor on the underlying assumptions. There is a significant and inevitable risk that future events may deviate significantly from the future-oriented statements.

With the persons responsible for monitoring, we discuss, inter alia, the planned scope and schedule of the audit as well as material audit findings, including potential weaknesses in the internal control system that we identify during our audit.

We issue a statement to the persons responsible for monitoring confirming that we have complied with the relevant requirements regarding independence, and discuss with them all relationships and other facts that can reasonably be assumed to impair our independence, as well as the protective measures taken in this respect.

From the facts discussed with the persons responsible for monitoring, we identify those facts that were of the highest significance for the audit of the annual financial statements for the current reporting period and therefore constitute key audit matters. We describe these key audit matters in the audit report, except if laws or other statutory provisions prohibit the publication of such facts.

Miscellaneous statutory and other legal requirements

Other information pursuant to Article 10 Audit Regulation

The shareholders' meeting on February 21, 2017, elected us as the auditors. The Supervisory Board awarded the engagement on May 29, 2017. We have been acting as the auditors for Siemens Bank GmbH, Munich, without interruptions since the 2010 fiscal year.

We hereby confirm that the audit opinions contained in this audit opinion comply with the additional report to the audit committee pursuant to Article 11 Audit Regulation (audit report).

In addition to auditing the Company's annual financial statements, we have provided the following services which were not specified in the annual financial statements or in the management report:

Confirmation services regarding the audit pursuant to Part V. Nr. 11 (1) Standard Terms and Conditions of the Bundesbank (confirmation regarding the credit claims submission procedure)

Responsible auditor

Mr. Andreas Loetscher is the responsible auditor for this audit.

Munich, December 12, 2017
Ernst & Young GmbH Auditors

Loetscher	Adam
Auditor	Auditor

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

Annex to the annual financial statements of Siemens Bank GmbH, Munich,
for the fiscal year from October 01, 2016 to September 30, 2017

Siemens Bank maintained the following branches in member states of the European Union as of September 30, 2017:

» 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

During the 2017 fiscal year, Siemens Bank opened a branch in a third country:

» 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)	2017	2016	2017	2016	2017	2016
Business type	Lending and guarantee business Deposit business Fee business		Lending and guarantee business Fee business		Lending and guarantee business Fee business	
Figures						
Sales revenue *	60,401	65,960	72,916	63,660	3,538	0
Profit before tax *	41,931	22,668	35,500	23,248	(3,614)	0
Taxes on profit *	(204)	(610)	(8,537)	(5,143)	(2)	0
Government assistance received *	0	0	0	0	0	0
Number of employees on payroll	161.9	159.3	31.2	31.0	15.0	0.0

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 1.2% (previous year: 0.8%).

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

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