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Siemens Bank GmbH

Annual Report 2016

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Editorial



Roland Chalons-Browne
Managing Director (CEO)

Dr. Ingeborg Hampl
Managing Director (CRO)

Dr. Peter Rathgeb
Managing Director (CFO)

Dear readers,

Siemens Bank can look back on a successful fiscal 2016.

Persistently low interest rates, continuing uncertainty as to the trend in crude oil prices, political upheaval such as the attempted coup in Turkey and the Brexit vote, and the exchange-rate volatility they triggered: These are only some of the factors that influenced global economic growth, and business development at Siemens Bank, in the reporting period. In an overall economic environment like this, our operating result – which was roughly on a par with fiscal 2014, although lower than fiscal 2015 – must be considered a success.

In such a setting, our sustainability-focused risk strategy once again proved its worth.

In line with this strategy, we took on only selected risks that allowed us to preserve our attractive risk-return profile. At the same time, the prevailing level of uncertainty prompted us to increase our loan loss provisions.

Overall, Siemens Bank continues to see strong demand for financing solutions in the markets in which it operates because planning cycles are generally longer in the field of project and capital-equipment financing. Last fiscal year, this demand was evident, for instance, in connection with mobility and renewable-energy projects. Together with our partner banks, we secured, for the next few years, the continued growth of a German company active in locomotive leasing – a company that ordered an additional 33 locomotives from Siemens last fiscal year.

One example from the renewable-energy sector is the leading role we took in the first two major syndicated loans issued under the new British Contracts for Difference (CFDs) scheme for renewable energy. The shareholders in the two offshore wind farm projects are leading industry investors, and the wind farms currently under construction use Siemens 6.0 MW/7.0 MW direct drive turbines. In the operating phase, the CFD mechanism will lower the customer's electricity-price risk more substantially than was the case under the previous Renewables Obligation Certificates (ROC) system.

Long-term continuity is the hallmark of our business model, which rests firmly on three strong pillars: first, medium-to-long-term lending and guarantee business focusing on corporate clients, project companies and public-sector borrowers; second, deposit and treasury business, including Group financing activities and asset liability management; and third, fee business, which pools key resources for managing financial risk and processing financial transactions of the Siemens Group.

Given our combination of risk expertise, technological know-how, and reliable capital resources and liquidity, we are convinced that these three pillars will only gain in strength in the new fiscal year. Despite the continuing uncertainty concerning the macroeconomic environment, we again expect to be able to grow and enhance our profitability – not least thanks to our expanding presence and business activities in the dynamic markets of Asia.

Siemens Bank will thus be in a better position than ever to support Siemens' growth plans and meet financing requirements in the target markets. Not only that: By providing financing solutions to the customers of Siemens AG and its subsidiaries, we can contribute toward the success of the Group as a whole.

Siemens Bank GmbH
Management Board

Roland Chalons-Browne	**Dr. Ingeborg Hampl**	**Dr. Peter Rathgeb**
Managing Director (CEO)	Managing Director (CRO)	Managing Director (CFO)

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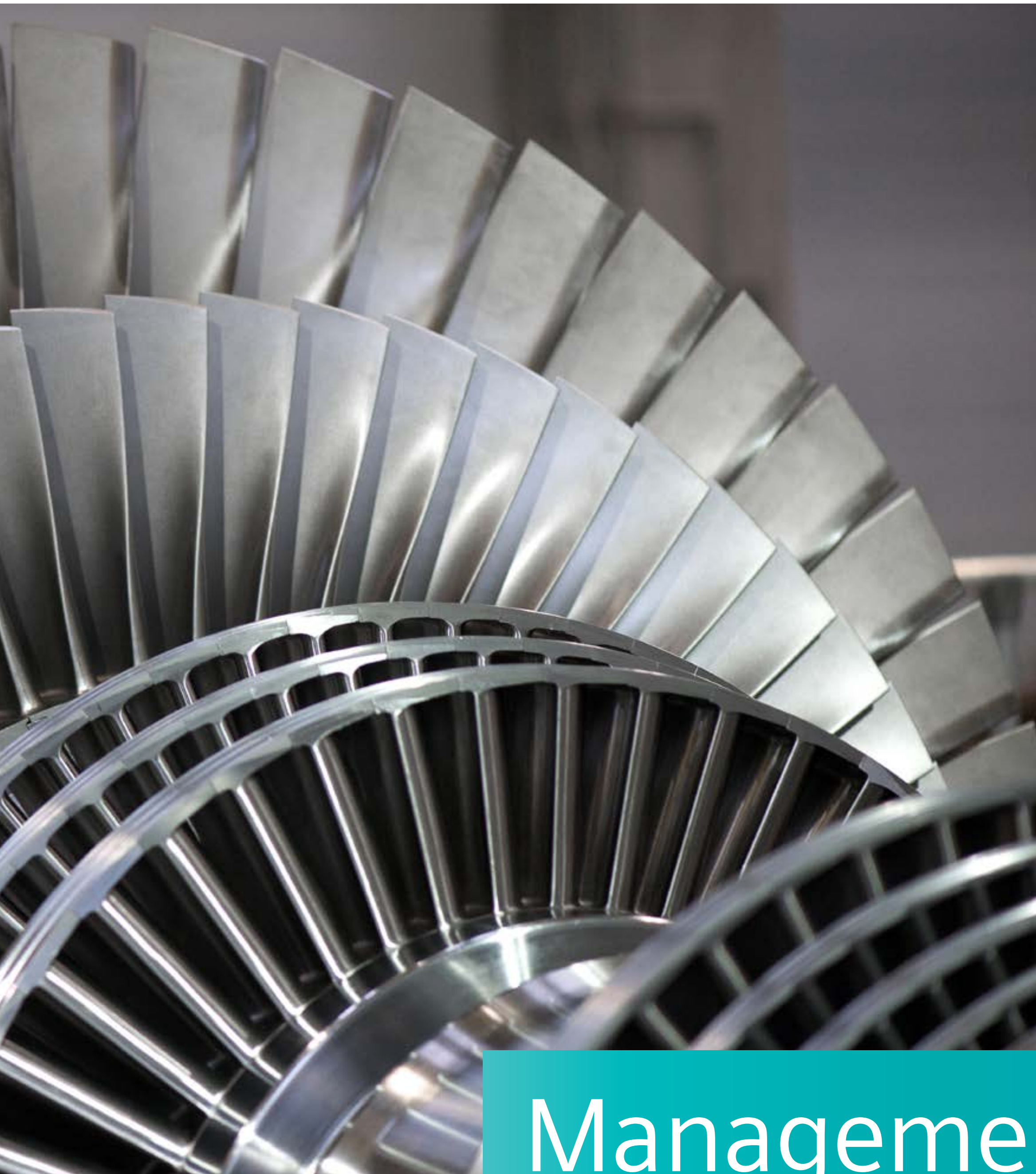
This version of the annual financial statements and the management report of Siemens Bank GmbH, Munich, has been prepared for the convenience of English-speaking readers and is a translation of the German original. For purposes of interpretation, the German text shall be authoritative and final.

Management report



Management report

of Siemens Bank GmbH, Munich, for the period October 1, 2015, to September 30, 2016

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, capital investment loans, project finance, promissory note loans and revolving loan facilities. Siemens Bank operates in both the primary market and the secondary market for loans.

» 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 establishment of a portfolio of highly liquid assets. Asset liability management ensures that the credit business is funded by equity and deposits.

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

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

1.2 Economic environment

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

Even though the moderate economic growth described in the outlook for the last fiscal year actually materialized in important Siemens Bank markets during fiscal year 2016, this did not take place to the extent expected. At the same time, 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 2016 calendar year by 0.4% in the first quarter and by 0.3% in the second quarter, in both cases in comparison with the previous quarter (last year: 0.7% and 0.4% respectively). In the United States, GDP continued to rise, even though the level of growth was lower than last year. Growth rates in Asia – including important emerging economies such as China and India – continued to be relatively high, but fell below expectations and the high growth rates seen in the past, also because uncertainties regarding the region's future economic development continue to be significant. After comparatively strong growth during the first quarter (growth of 0.5% of GDP compared with the previous quarter), the eurozone only saw weaker economic growth in the second quarter, of 0.3% of GDP compared with the previous quarter. This growth is currently fueled mainly by private consumption. In this context, Spain, the Netherlands and the eastern european member states contributed above-average growth rates, while economic activities in Italy and France stagnated. Germany also showed above-average growth rates during this period compared with the eurozone overall. Outside the eurozone, GDP in the United Kingdom rose during the first and the second quarters, by 0.4% and 0.6% respectively; however, these growth rates do not take into account the effects of the "Brexit" decision regarding the planned withdrawal of the United Kingdom from the European Union. This decision had short-term effects, in particular on the euro to pound exchange rate. Overall, 2016 saw a moderate expansion of economic development within and outside the eurozone, albeit at a lower level than expected. Nevertheless, signs of weakening economic activity could be noticed, in particular during the second quarter.

To this extent, the main features of the 2016 fiscal year were moderate growth, a large number of uncertainties and the generally muted growth in the global economy.

At the same time, Siemens Bank saw continued intense competition in the market for project and investment funding as the interest rate level remained at a historically low level, in particular in the eurozone. Also, Siemens Bank is pursuing analogous refinancing situations for banks in some Asian markets. Another factor adding to this competition is that many companies have exploited the favorable capital market conditions to refinance through bonds or replace existing financing with borrowing on better terms.

Despite the continuation of this challenging environment, Siemens Bank can report that the demand for financing solutions in markets relevant to its business is still being sustained at a high level because project finance and capital spending on equipment is generally subject to longer-term planning cycles. Furthermore, the broadly based geographical positioning at Siemens Bank enables the Bank to offset weak trends in individual markets or industries by exploiting opportunities in other markets. Nevertheless, the potential for achieving attractive risk-return profiles has decreased overall.

1.3 Regulatory environment

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

At 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. The rapid rate at which these legal acts are currently being adopted will continue at least into 2017.

Siemens Bank constantly tracks the changes in European and national legislation and at an early stage set up an overall project to continuously implement the CRR/CRD IV reform package. As a consequence of the date on which the central legal provisions at European level came into effect, a major part of the implementation effort already occurred during the course of the two previous fiscal years, 2014 and 2015. However, in order to keep pace with the continuous adoption of the delegated regulations and implementation regulations, implementation activities continued in 2016 and will be sustained at an intensive level in subsequent fiscal years.

In the 2016 fiscal year, Siemens Bank, for instance, formally implemented the Delegated Regulation (EU) 2015/61 with regard to the liquidity coverage requirement for credit institutions. Apart from the requirements regarding the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) that came into effect during previous fiscal years, liquidity reporting was supplemented by an additional report. Since July 2016, granular facts with liquidity relevance have been reported to the supervisory authorities via the Additional Liquidity Monitoring Metrics (ALMM). ALMM provides an overview of the liquidity profile, the refinancing concentrations and refinancing terms.

In the 2016 fiscal year, Siemens Bank furthermore applied for the first time the requirements of the Decree on the Filing of Financial and Capital Adequacy Information pursuant to the KWG (FinaRisikoV), with the annual reporting of capital adequacy information. The FinaRisikoV supplements the Decree on Financial Information (FinaV) that had been applicable to the Bank up to now.

As early as in November 2014, the EU passed Regulation (EU) No. 1333/2014 concerning reporting obligations under the Money Market Statistical Reporting (MMSR). Under this regulation, the affected banks are obligated to report daily statistical data on money market transactions and derivatives. The reporting obligations bindingly came into effect on July 1, 2016, after a three-month test period.

Siemens Bank is currently preparing intensively for the implementation of the statistical regulation on the multi-stage 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). A further anticipated point of focus in this area is the implementation of Regulation (EU) 2015/534 of the European Central Bank on reporting of supervisory financial information (ECB/2015/13), which will be applied to Siemens Bank for the first time during the upcoming fiscal year.

Also, the draft of the German Minimum Requirements for Risk Management at Banks (MARisk_BA) amendment 2016 has been in the consultation phase since February 2016. The current consultation paper 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 consultation paper includes, inter alia, extended requirements to the management of outsourcing risk, risk culture and additional new rules for the steering of IT risk.

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. The revision of the Decree on Banking Remuneration (InstitutsVergV) that transposes the above into national law is currently in the consultation phase. 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.

As of January 2017, the EBA guidelines (EBA/GL/2015/20) concerning limits on exposures to shadow banking entities that was published in December 2015 will come into force. Shadow banking entities within the meaning of these guidelines are undertakings that carry out banking-related activities that are not subject to similar supervision. However, the EBA guidelines do not contain direct requirements for shadow banking entities. Instead, internal management and control processes and specifically defined limits are intended to contribute to limiting risk positions in relation to shadow banking entities.

Siemens Bank has implemented a process to continuously analyze the consequences of new supervisory requirements and will implement these as part of the continuation of its overall project for the implementation of the CRR/CRD IV reform package.

In terms of overall impact, the adopted reforms have a far-reaching effect not only on the requirements for reporting to regulatory authorities but also on banking industry business models and therefore also on the banking landscape as a whole. It still is to be assumed that many banks will take a more restrictive and selective approach to assuming new risk and/or will make effort to reduce their existing risk positions.

1.4 Business performance

The 2016 fiscal year was characterized in particular by the persistently challenging economic and regulatory environment. Low interest margins due to high liquidity in important core markets, the decline in oil prices, but also volatile developments of important currencies such as the British pound in the context of the "Brexit" decision pose special challenges for Siemens Bank. Against this background, Siemens Bank has decelerated the expansion of its lending and guarantee business in order to avoid entering into excessive credit risk and unattractive risk-return profiles. Also, Siemens Bank has significantly increased allowances for losses for selective loan transactions in order to better take into account the special risks involved with such transactions. This means that the 2016 fiscal year did not meet the Management Board's expectations of further moderate growth in business volume and profitability, but rather reflects the reactions to uncertainties which Siemens Bank had identified in the context of last year's outlook.

Net assets

In the 2016 fiscal year, business volume in the **core activity, the lending and guarantee business**, fell slightly by 5% (previous year: increase of 15%).

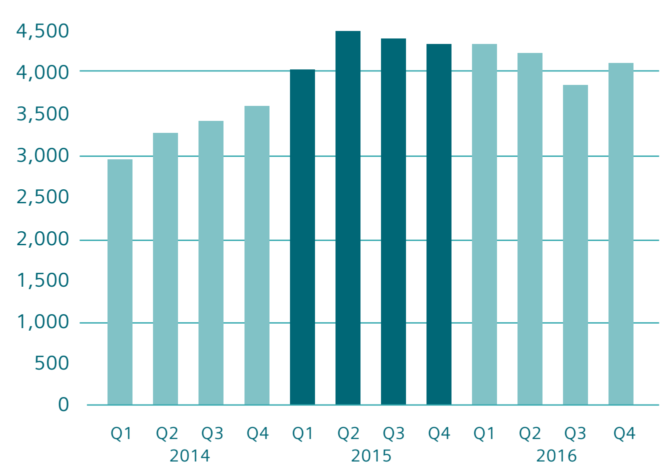


Figure 1: Growth in loans and advances to customers in the lending and guarantee business (€ million)

Whilst this lending portfolio grew continuously in 2014 and in the first half of 2015, a slight downward trend has been recorded since the beginning of the second half of 2015. On the one hand, this is due to premature repayments by customers who replaced existing loans in view of the continuing low interest rate level in important markets. On the other hand, Siemens Bank was more selective with regard to entering into risks which offer an attractive risk-return profile in the current market environment. Also, the expansion of the Asian lending portfolio and the presence of Siemens Bank in this market were slower than planned due to organizational and legal reasons. Therefore, volume development of this lending portfolio fell short of the Bank's expectations.

Nevertheless, business volume has once more been growing since the beginning of the last quarter of the 2016 fiscal year. This is also reflected by the increased portfolio of irrevocable lending commitments amounting to €823 million (previous year: €758 million). Contingent liabilities from sureties and guarantee contracts, however, are on a low level and declining and thus continue to be of subordinate importance for Siemens Bank.

The focus of this lending portfolio in fiscal year 2016, as in the previous year, was on activities in the areas energy (oil and gas, renewables, energy management), infrastructure and health. In addition to project financing, Siemens Bank has a corporate lending portfolio. In this context, the relative significance of renewables and health increased during the 2016 fiscal year, also because the other areas showed only minor growth due to the current market situation.

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

In the **deposit and treasury business**, the Group financing portfolio, which forms an integral part of the loans and advances to customers, has grown from €241 million to €327 million since the end of the previous fiscal year. The extent of this portfolio depends on the financing requirements of Siemens AG subsidiaries that cannot be covered by Siemens AG itself. The provision of collateral in cash means that Siemens Bank does not bear any credit risk in association with this business. Compared with the lending and guarantee 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 change in liquidity investments – which are reported under loans and advances to banks and credit balances with central banks, bonds, as well as under loans and advances to customers – in previous years up to the 2014 fiscal year, was closely linked to the change in the volume of the deposit business with Siemens AG and its subsidiaries. However, since the 2015 fiscal year, Siemens Bank has built up highly liquid assets within this 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. In this context, Siemens Bank also restructured liquidity investments by banks into promissory-note loans.

With this asset portfolio, Siemens Bank intends to achieve positive income contributions and a high level of security in addition to compliance with commercial and legal requirements regarding liquidity control. The moderate increase of this portfolio is in line with Siemens Bank's expectations.

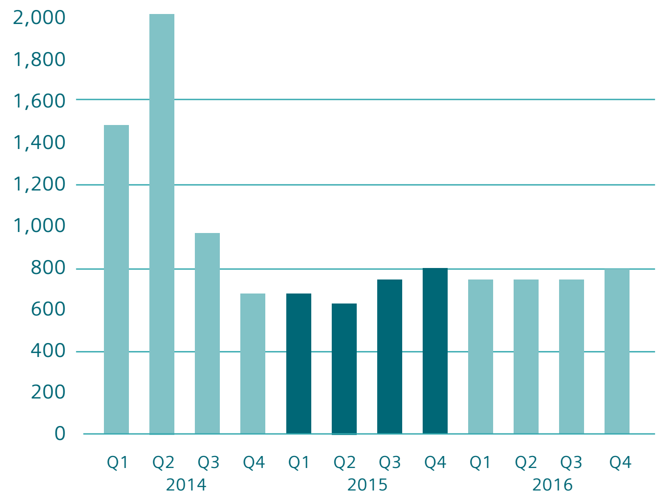


Figure 2: Change in liquidity-related investments in the deposit and treasury business (€ million)

Financial position

The business activities of Siemens Bank are largely refinanced by deposits and equity. 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. In addition, a small portion of the business volume was refinanced during the last year through central banks, so Siemens Bank has further sources of refinancing at its disposal outside the Siemens Group.

Where deposits are used directly for the purposes of refinancing the lending business, they are matched as far as possible with the lending currencies and in accordance with the expected repayment profiles so that the exposure of Siemens Bank to currency and maturity transformation risk is very limited.

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

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

Results of operations

The 2016 fiscal year was characterized on the one hand by stagnating net interest income and on the other hand by significantly increased allowances for losses on loans and advances so that the results of operations decreased. This is why Siemens Bank was unable to continue the growth in operating income seen in previous years.

(€ million)	2016	2015	2014
Net interest income	113.7	113.1	91.4
Net fee and commission income	19.2	16.5	14.2
General administrative expenses	(53.3)	(51.2)	(45.7)
Other income and expenses, net	(3.3)	6.6	6.5
Net operating income before allowances for losses on loans and advances	**76.3**	**85.0**	**66.4**
Allowances for losses on loans and advances	(30.4)	(19.3)	(16.5)
Net operating income	**45.9**	**65.7**	**49.9**

Figure 3: Components of Siemens Bank income

Net interest income at Siemens Bank arises from the spread between interest income on loans and investments on one side and refinancing-related interest expense on the other. Interest terms also reflect the effect of inflation. As a consequence of the decelerated portfolio expansion in the core business area of the lending and guarantee business, net interest income stagnated during the 2016 fiscal year and fell below Siemens Bank's expectations. In addition to a slightly declining lending portfolio, net interest income was negatively affected by the revaluation of the euro against the British pound in the context of the "Brexit" decision, as a significant proportion of the lending portfolio in the lending and guarantee business is denominated in British pounds. Nevertheless, Siemens Bank was able to continue to generate attractive risk-return profiles in the lending and guarantee 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 increase in net interest income in the previous year was caused mainly by the growth of the lending and guarantee business but also by currency effects from the US dollar and British pound portfolios. The net interest margin contribution from the lending and guarantee business generates most of the net interest income. Liquidity investments in the deposit and treasury business normally generate lower interest margins.

In spite of a further growth by 16% (previous year: 16%), **net fee and commission income** still is of minor significance for Siemens Bank's results of operations. Siemens Bank earns fee and commission income primarily by providing risk-management and processing services for Siemens AG and its subsidiaries. The costs incurred in providing the services are reported under general 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.

A constant portion of 59% (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. Whilst general administration expenses had increased significantly during the 2015 fiscal year – mainly due to the expansion of business activities in the lending and deposit business, the further development of the IT infrastructure since 2014 and the revision of the German banking tax in 2015 – Siemens Bank was able to achieve a very moderate increase in general administration expenses for the 2016 fiscal year, which was in line with expectations, which was mainly due to salary increases and higher costs for individual service providers.

Other net operating income is for the most part determined by income from currency valuations. In contrast to previous years, Siemens Bank reports a moderate loss from currency valuation for the 2016 fiscal year.

Even though the growth of the lending and guarantee business decelerated in the 2016 fiscal year, **allowances for losses on loans and advances** increased significantly. Siemens Bank had to significantly increase allowances for individual loan transactions that depend on the oil price in order to take account of the risks involved with parts of this industry. This corresponds to a downside scenario in the Siemens Bank plans, as uncertainties materialized which had been identified by Siemens Bank in last year's outlook. In 2015, on the other hand, allowances for losses on loans and advances only grew moderately and at a disproportionately low level in relation to the growth in net interest

income. Due to the continuing high credit quality of Siemens Bank's loan portfolio, allowances for losses on loans and advances still are moderate for large parts of the lending portfolio, also in the 2016 fiscal year.

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

As in the previous fiscal year, the net operating income before tax reported here represents Siemens Bank's key **financial performance indicator**. The strong decline of this performance indicator corresponded to a downside scenario in the Siemens Bank plans, as uncertainties that had been identified in last year's outlook materialized and as the Bank's lending portfolio did not grow to the expected extent. Other indicators, such as return on equity after tax (RoE) and economic value added (EVA), are used in the pricing of credit transactions and, as risk-adjusted key indicators, in the management of the lending portfolio.

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 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 specifies details for the implementation of the requirements under the business strategy in relation to issues subject to risk and in relation to the strategic direction from a risk perspective while at the same time taking into account the overall objectives of the business strategy and the risk appetite of Siemens Bank. This forms the basis on which Siemens Bank determines its guidelines for risk management and the target system for risk strategy at the Bank. The most important risk principle is compliance at all times with both 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 Bank's 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, which 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).

2.2 Risk management and organization

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

2.2.1 Organizational structure

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

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

Segregation of functions

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

Operational management of risk at Siemens Bank is carried out within the risk strategy framework and subject to the limits specified by the back office. The risk strategy framework and risk management limits are defined by the back office, whereas the front office is responsible for the operational implementation of risk management. Operational risk management is 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 lending 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 Credit Committee and also participates in the meetings of the Management Board 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 to ascertain the appropriateness of the risk management system and the corresponding internal control system is the internal audit function. The Management Board has appointed an internal audit officer, who reports directly to the Management Board and is responsible for ensuring that the internal audit function fulfills its responsibilities properly. The framework of the internal audit function's tasks is described in a rolling three-year audit framework plan that is prepared using a risk-based approach and updated yearly. The operational execution of audits for which the internal audit function is responsible is outsourced to the internal audit function of Siemens AG. The findings of the audits are summarized in an audit report prepared in consultation with the internal audit officer and then presented to the Management Board and the Supervisory Board.

A further essential element of the internal control system is the compliance function of Siemens Bank. The compliance function consists of a central unit that is supplemented by other units from Risk Controlling, Regulatory Reporting and the Legal department. This central 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 compliance-specific issues. The function assesses compliance with the internal regulations relating to anti-money laundering and other criminal offenses as well as further compliance-relevant, company-specific provisions. It also monitors compliance with these provisions, regulations and other requirements and supports and advises the Management Board and the business units regarding this compliance. Regarding further compliance-relevant internal provisions such as regulatory questions or implementation of MaRisk, the compliance function is assisted, in particular, by Risk Controlling and Regulatory Reporting. Regardless of the superordinate role of the compliance function, the members of the Management Board and the business units remain fully responsible for compliance with all legal requirements and other regulations. The central compliance 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. The report on internal capital adequacy is based on a comprehensive internal capital adequacy assessment, which includes an analysis of the current internal risk capital requirement in both normal and stress scenarios.

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

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

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. The implementation of these action plans is monitored in separate, quarterly reports.

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

2.2.2 Internal control system for accounting processes

Objective

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

Responsibilities

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 of the 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. Operation risk and prepayment risk are calculated according to the "gone concern" perspective.

Siemens Bank determines its risk-taking potential with a value-based approach in accordance with the circular "Aufsichtsrechtliche Beurteilung bankinterner Risikotragfähigkeitskonzepte" (regulatory evaluation of internal risk adequacy concepts) issued by the German Federal Financial Supervisory Authority (BaFin) in December 2011. The risk-taking potential comprises partly regulatory tier 1 and tier 2 capital (together referred to as core risk-taking potential) and partly an adjustment for the hidden reserves and charges from the portfolio of Siemens Bank. Expected losses, potential costs from eliminating liquidity gaps and administration costs 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, 2016, the risk-taking potential of Siemens Bank consisted of the following:

(€ million)	2016	2015
Tier 1 capital	1,000.0	1,000.0
Tier 2 capital	30.9	24.0
Additional risk-taking potential	362.1	320.2
Total risk-taking potential	**1,393.0**	**1,344.2**

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, 2016, the allocation of the risk-taking potential and the risk capital requirements are as follows:

(€ million)	2016		2015	
Risk-taking potential in stress scenario	1,369.5		1,325.4	
thereof additional risk-taking potential in stress scenario	338.6		302.0	
thereof core risk-taking potential	1,030.9		1,023.4	
	Risk-taking potential	**Required risk capital**	**Risk-taking potential**	**Required risk capital**
Risk capital for operational risk	22.0	22.0	13.0	13.0
Risk capital for default risk	600.0	308.6	600.0	271.4
Risk capital for market risk	20.0	2.3	30.0	7.7
Risk capital for refinancing risk	30.0	22.3	20.0	8.8
Normal case	**672.0**	**355.2**	**663.0**	**301.0**
Risk capital for operational risk		22.0		17.0
Risk capital for default risk		445.4		408.0
Risk capital for market risk		3.6		13.0
Risk capital for refinancing risk		39.4		13.4
Risk capital for business risk		87.5		150.9
Risk capital for prepayment risk		16.4		0.0
Buffer for other nonmaterial risks		20.0		17.8
Stress case total	**1,369.5**	**634.2**	**1,325.4**	**620.2**

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 with simulates that the all transactions from the lending and guarantee 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 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 €620.2 million to €634.2 million during the fiscal year, whilst the risk-taking potential under stress increased by €44.1 million. The highest utilization of the risk-taking potential was recorded toward the end of the third quarter, with €713.0 million and a risk-taking potential under stress of €1,340.1 million. For fiscal year 2016, 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 same also applies to operational risk as the required risk capital in this case is determined in accordance with the basic indicator approach as specified in CRR and/or is valued conservatively with a significant buffer.

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

Regulatory capital adequacy

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

As of September 30, 2016, the composition of regulatory capital at Siemens Bank was as follows:

(€ million)	2016	2015
Tier 1 capital		
Paid-up capital instruments	5.0	5.0
Adjustments due to the requirements for prudent valuation	(0.7)	(0.6)
Capital reserves and other eligible reserves	995.0	995.0
	999.3	**999.4**
Tier 2 capital		
Total tier 2 capital before capital adjustment items pursuant to section 10 (2b) of the KWG	30.9	24.0
Adjustment items for tier 2 capital pursuant to section 10 (6) and (6a) of the KWG	0.0	0.0
	30.9	**24.0**
Total modified available capital pursuant to section 10 (1d) of the KWG	**1,030.2**	**1,023.4**

Figure 6: Composition of regulatory capital according to the final financial statements as of September 30, 2016

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)	2016	2015
1. Default risk		
Standardized credit risk approach		
Central governments	0.0	1.6
Institutions	2.8	6.4
Corporates	357.9	357.1
Other	0.1	0.3
Overdues	4.1	4.2
Sum of default risk	**364.9**	**369.6**
2. Market risk		
Standardized approach	3.9	5.5
- thereof: currency risk	3.9	5.5
Sum of market risk	**3.9**	**5.5**
3. Operational risk		
Basic indicator approach	17.7	12.7
Sum of operational risk	**17.7**	**12.7**
Total capital requirements	**386.4**	**387.8**

Figure 7: Regulatory capital requirements as of September 30, 2016

In this context, the requirements for fiscal year 2016 already take into consideration the additional capital requirements due to the SREP surcharge.

Siemens Bank must ensure a total capital ratio of 9.50% according to CRR in conjunction with the relevant provisions of the KWG. The total capital ratio includes the capital preservation buffer, the anticyclical buffer and the SREP surcharge, 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, 2016, the total capital ratio (Pillar I) for Siemens Bank was 21.99% according to the final financial statements (previous year: 21.10% 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 21.33% according to the final financial statements (previous year, according to the approved financial statements: 20.46%). The capital ratios due to adaptations according to Pillar II are 21.94% (total capital ratio) and 21.28% (common equity Tier 1 ratio). Both ratios are therefore markedly higher than the total capital ratio of 9.50% specified by the regulatory requirements.

The difference between the required regulatory capital of €386.4 million (previous year: €387.8 million) and the required economic risk capital in the normal scenario of €355.2 million (previous year: €301.0 million) and in the stress scenario of €634.2 million (previous year: €620.2 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, 2016, Siemens Bank was only exposed to issuer risk positions through short-term bonds (commercial paper) 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 who are subject to loan restructuring; category 10 comprises all borrowers already in default and in the process of winding-up.

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

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

2.3.2 Portfolio management and modeling

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

Expected loss

To determine the expected loss, the Bank forecasts the average loss it expects based on the current credit rating and the current expected recovery rate for each and every borrower. The expected loss is a key figure in portfolio analysis and a key input variable for pricing new business. When determining risk as part of a 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 in the recovery rate and asset recoveries. While negative recovery fluctuations lead to higher loss in the event of rating migration, asset recovery fluctuations lead to direct loss in market value. The credit value at risk and the risk contributions for the risk units are then derived from the loss distribution. In addition to the credit value at risk, the risk contributions from the largest portfolios and segments are also calculated in order to measure concentration risk.

Country risk

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

Backtesting

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

Pricing

As part of the credit process, new business is assessed using measurement methods and pricing tools. These methods and tools factor in refinancing costs, expected losses, and tax effects as well as administrative expenses and the costs in connection with economic risk capital. All the essential aspects of risk and return are therefore taken into account in the assessment of new business. The parameterization of the pricing tool is based on the parameterization defined within the portfolio management process and thereby ensures consistency of the Bank's integrated risk-return management. Key figures determined from the pricing process are the Economic Value Added (EVA) and the Return on Equity (RoE) based on the economic capital (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. In particular, stress tests for the oil & gas industry were carried out during the last fiscal year. 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 the agent for the loan syndicate.

Collateral in the first category results in a reduction in the expected loss and unexpected loss because the recovery rate for the transaction is increased or by stating an asset recovery. 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.

As of September 30, 2016, Siemens Bank had total recognized individual and general loan loss provisions of €46.1 million (previous year: €23.7 million).

2.3.5 Analysis of the lending portfolio as of September 30, 2016

The required economic capital for default risk as of September 30, 2016, was €308.6 million. The allocated risk-taking potential was €600.0 million. The amount of capital required is largely determined by the lending portfolio volume, borrower credit ratings, collateralization and borrower industrial sectors and countries. The increase in risk capital requirements in comparison to the previous year is mainly due to deteriorated economic framework conditions in individual industries and regions, for instance the upstream sector in the oil industry.

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

As of September 30, 2016, the lending portfolio, based on the lending and guarantee business as well as Treasury investments associated with the management of liquidity risk and asset liability management (without short-term money market investments and commercial paper from credit institutions) had a nominal exposure of €5,002.7 million (previous year: €4,893.2 million), of €4,403.5 million (previous year: €4,482.7 million) was attributable to corporate and project financing and €599.2 million (previous year: €410.5 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, 2016, is shown in the following table:

(€ million)	2016	2015
Rating category	Outstanding	Outstanding
1	31.0	13.4
2+	0.0	2.0
2	64.8	65.5
2-	673.0	429.5
3+	11.4	97.6
3	113.1	100.0
3-	80.7	142.7
4+	111.4	196.0
4-	628.8	598.6
5+	548.4	608.9
5-	475.1	734.3
6+	795.1	747.6
6-	543.2	631.7
7+	394.5	161.8
7-	259.8	211.9
8+	113.0	94.6
8-	20.7	13.5
9	104.3	27.7
10	34.3	15.8
Total	**5,002.7**	**4,893.2**

Figure 8: Lending portfolio by rating category

As of September 30, 2016, the investment-grade exposure (rating 1 through 5+) totaled €2,262.6 million (previous year: €2,254.2 million) and the noninvestment grade exposure (rating 5- through 10) totaled €2,740.2 million (previous year: €2,639.0 million). There was a total of €104.3 million in credit exposure with a high likelihood of default (rating 9) as of September 30, 2016 (previous year: €27.7 million); defaults in the lending portfolio (rating 10) totaled €34.3 million (previous year: €15.8 million). All transactions in the lending and guarantee business are usually collateralized transactions. Noncollateralized 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 and Asia.

(€ million)	2016	2015
	Outstanding	Outstanding
EU excluding the eurozone	1,394.4	1,429.3
Germany	1,184.7	1,010.6
Europe excluding the EU	744.5	734.0
Asia	677.5	792.5
Eurozone excluding Germany	642.0	579.9
Australia/Oceania	219.8	188.6
Others	139.8	158.3
Total	**5,002.7**	**4,893.2**

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 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 buckets then ensures that any emerging liquidity shortfall is detected at an early stage and that Siemens Bank can meet its payment obligations at all times. In a procedure similar to that used for the multicurrency liquidity gap profile in euros, individual liquidity gap profiles are generated and analyzed daily for each material 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 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 being agreed. Prepayment risk arises therefore due to overestimation of the expected maturity of the credit business.

Limit structure

Siemens Bank defines its liquidity risk tolerance over a period of twelve months and thereby limits the gaps determined in the liquidity gap profile. Liquidity risk controlling continuously monitors compliance with these limits. For the time period 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 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 bankwide 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 which result in liquidity risk only within the framework of asset liability management. Derivatives are currently only allowed in order to reduce risk, but not as a means of creating new refinancing 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 and guarantee 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, 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 credit spreads as well as through a simulated reduction in available liquidity.

Backtesting

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

Liquidity risk controlling also reviews the defined stress test scenarios.

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

2.4.3 Liquidity analysis as of September 30, 2016

The liquidity gap profile comprising deterministic, optional and modeled cash flows shows negative cumulative cash flows in 6 month to 5 year maturity buckets as of September 30, 2016. All short-term cumulative cash flows up to 6 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 continued to increase its liquidity buffer over the last fiscal year. As of September 30, 2016, this buffer (comprising assets eligible as collateral with central banks) amounted to €770.9 million (previous year: €625.3 million).

Within strict limits, deposits are also used for refinancing credit business. Given the largely maturity-matched refinancing of the credit business, Siemens Bank had, as of September 30, 2016, a liquidity value at risk of €22.3 million (previous year: €7.7 million) with a confidence level of 99.95% and a risk horizon of one year because of the negative cumulative cash flows in the medium- to long-term liquidity structure. This capital requirement was contrasted by an allocated risk-taking potential of €30.0 million. The utilization of the allocated risk-taking potential did not exceed the allocation at any point during the fiscal year.

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

2.5 Market risk

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

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

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

2.5.1 Risk management

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

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

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

2.5.2 Modeling

Risk model

Siemens Bank uses 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

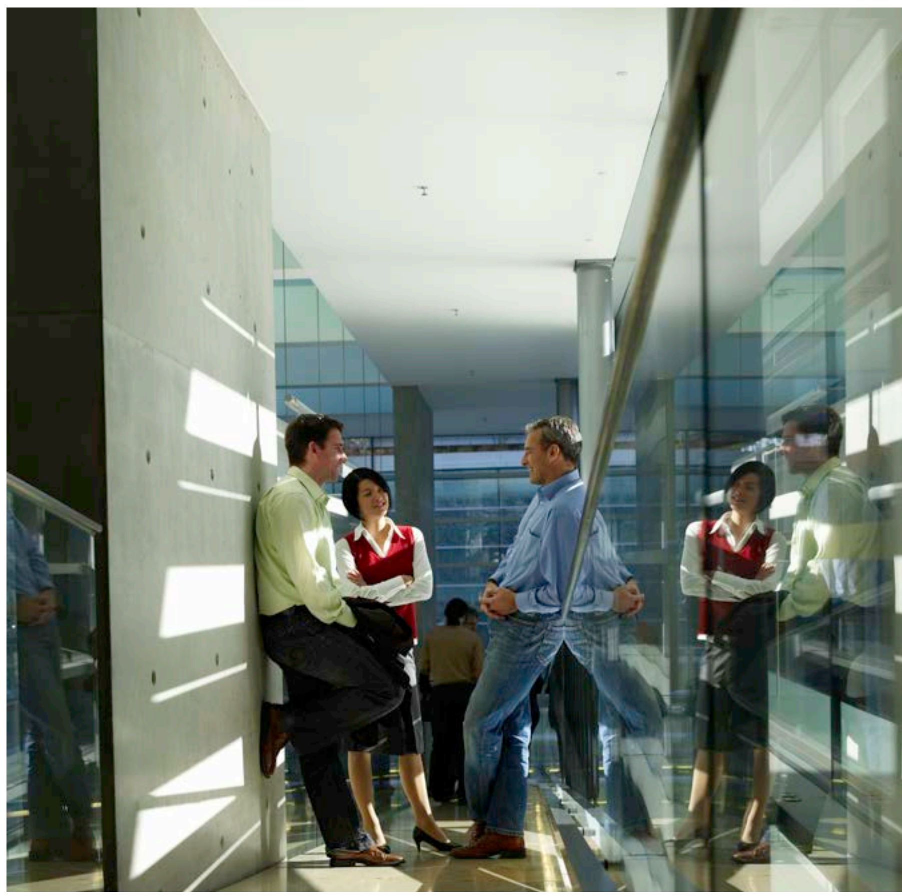
The one-day value at risk is backtested in order to ensure the quality of the forecast produced by the value-at-risk model. The change in value in the underlying positions (hypothetical P&L) is compared with the calculated value at risk. If the hypothetical P&L exceeds the calculated value at risk more 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, 2016

As of September 30, 2016, the required economic capital for market risk was €2.3 million (previous year: €8.8 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.

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, 2016

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, 2016 was €22.0 million (previous year: €13.0 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; therefore the Management Board manages this risk on a bankwide level. An essential driver behind the development of business risk was the net currency income. Whilst the EUR/USD risk development was relatively stable, the 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 a branch in London, United Kingdom, where it essentially operates its lending and guarantee business. There are no other branches.

As in the previous year, Siemens Bank was involved in a large number of groupwide programs and initiatives in 2016 under the auspices of Siemens AG, such as

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

» sustainability management to promote responsible conduct at economic, environmental and social levels for the benefit of future generations;

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

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

No nonfinancial performance indicators were used during the 2016 fiscal year to manage the business.

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

An extremely important factor in Siemens Bank's business performance was the reconfirmation of its credit rating by Moody's credit rating agency in September 2016. In a Credit Opinion, Moody's affirmed an unchanged long-term rating for Siemens Bank of A1 (stable outlook) and an unchanged short-term rating of P-1.

4 Outlook

Trends in the economic environment

In an economic forecast published during the fall of 2016, the Economic and Monetary Policy Committee of the Association of German Banks (Ausschuss für Wirtschafts- und Währungspolitik des Bundesverbandes deutscher Banken) predicted that the global economy would grow by 3.0% over the 2016 calendar year. For the next calendar year, the forecast expected a slight acceleration of growth to 3.3%. Overall, however, the committee postulated the lack of any significant dynamics and considered development of the global economy as being “stuck in mediocrity.” In this context, the association was acting on the assumption that development in the various economic regions would continue to vary.

It is, for instance, possible that next year, after bottoming out in 2016, growth in the emerging economies may provide a positive surprise – albeit on a low level – for the first time for several years. This expectation results from the adaptation processes in the affected countries and the slightly higher raw materials prices, in particular for crude oil. For China, the committee sees a good chance that the nadir has been reached, with growth rates of approximately 6.5% per year. Only minor economic momentum is expected to come from the industrialized countries. Whilst the economy in the eurozone is anticipated to grow by 1.5% in the 2016 calendar year, a growth of merely 1.3% is expected for next year. In particular, weak investments in the eurozone, that at present hardly react to monetary policy operations by the ECB, are seen critically. 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 1.8% over the whole of 2016 and 0.9% in 2017. Siemens Bank believes that all these forecasts are significantly below the growth forecasts seen in previous years, reflecting a very high level of uncertainty regarding general economic development.

The Economic and Monetary Policy Committee of the Association of German Banks also stresses this unusually high level of uncertainty. National political tensions, populism and protectionism, terrorism risk and numerous geopolitical areas of conflict are mentioned as examples. The upcoming negotiations on the withdrawal by the United Kingdom from the European Union, the conversion of the Chinese economy toward a strengthening of the services sector, and the high liquidity of central markets are additional factors of uncertainty for economic development.

Siemens Bank shares the expectation that economic dynamics will not continue to strengthen during the fiscal year 2017, but will rather remain on a similar level to the previous year. Also, Siemens Bank foresees a number of severe uncertainties which may have significant influence on economic growth, but also on the credit quality of individual regions or industries.

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

Business performance of Siemens Bank in 2017

After a very challenging fiscal year 2016, Siemens Bank expects to once more significantly increase its portfolio in the lending and guarantee business, and thus its profitability, in the 2017 fiscal year. In this context, the Bank anticipates additional development and growth opportunities, in particular with regard to the intensified expansion of business activities in Asia, the continued consistent alignment of the lending and guarantee business to attractive risk-return profiles, and the income from the existing lending portfolio. 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.

However, due to the developments of the economic environment described above, Siemens Bank sees increased risks for its business plans, caused by an extremely high level of uncertainty.

For the upcoming 2017 fiscal year, Siemens Bank expects the short-term deposits from Siemens AG and its subsidiaries, and, associated with this, the liquidity deposits included in loans and advances to banks, customers and central banks to remain on a similar level. However, Siemens Bank believes that a significant growth in loans and advances to customers in the lending and guarantee business, which is planned to once more follow up on the growth rates of previous years, will have a stronger influence on business volume and net interest income.

The planned further expansion of business activities in Asia, 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 significant growth in net interest income. However, Siemens Bank sees risks in forecasting the future development of net interest income, as the interest margins which can be generated are under increasing pressure due to high liquidity in the credit markets. Siemens Bank expects that its refinancing in the 2017 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.

Through cost discipline, Siemens Bank intends to again achieve a merely slight increase in general administration expenses in the 2017 fiscal year. Expected additional costs from the planned further 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 previous years. In this context, uncertainties in individual regional markets or industries may lead to a rise in loan defaults.

Overall, Siemens Bank therefore expects a clear increase in its net operating income before tax.

Annual financial statements

Income statement

of Siemens Bank GmbH, Munich, for the fiscal year from October 1, 2015, to September 30, 2016 (€'000)

		Notes to the financial statements		2016	2015
1	**Interest income from**	1			
	a) lending and money market business		162,182		159,357
	of which: negative interest income €332 thousand (previous year: €118 thousand)				
	b) fixed-income securities and registered debt		923		1,761
				163,104	**161,118**
2	**Interest expense** of which: positive interest expenses €2,008 thousand (previous year: €1,726 thousand)	1		**(49,379)**	**(48,024)**
3	**Fee and commission income**	1, 2		**19,286**	**16,654**
4	**Fee and commission expense**			**(60)**	**(199)**
5	**Other operating income**	1, 3		**213**	**8,012**
6	**General administration expenses**				
	a) Personnel expenses				
	aa) Wages and salaries		(27,235)		(25,664)
	ab) Social security and expenses for pension and support obligations		(4,224)		(4,492)
	of which: in respect of pensions €(2,015) thousand (previous year: €(2,522) thousand)			(31,459)	(30,156)
	b) other administrative expenses			(21,817)	(21,009)
				(53,276	**(51,165)**
7	**Depreciation and write-downs on intangible assets and property and equipment**			**(18)**	**(21)**
8	**Other operating expenses**	3		**(3,589)**	**(1,374)**
9	**Write-downs of receivables and certain securities and additions to provisions in the lending business**			**(30,365)**	**(19,305)**
10	**Income from ordinary operations**			**45,916**	**65,695**
11	**Taxes on income** of which: deferred taxes €179 thousand (previous year: €(179) thousand)	4		**(5,747)**	**(5,205)**
12	**Other taxes, if not included under item 8**			**(5)**	**(4)**
13	**Profit transferred under a profit-and-loss transfer agreement**	5		**(40,164)**	**(60,487)**
14	**Annual net profit**			**(0)**	**0**
15	**Distributable profit**			**(0)**	**0**

Balance sheet

of Siemens Bank GmbH, Munich, as of September 30, 2016 (€'000)

	Assets	Notes to the financial statements		2016	2015
1	**Cash**				
	Credit balance with central banks of which: with Deutsche Bundesbank €14,522 thousand (previous year: €12,176 thousand)		14,522		12,176
				14,522	**12,176**
2	**Loans and advances to banks**	**6**			
	a) Sight deposits		15,480		47,532
	b) Other receivables		45,698		262,305
				61,178	**309,837**
3	**Loans and advances to customers** including secured by liens €0 thousand (previous year: €0 thousand) including: municipal loans €545,123 thousand (previous year: €290,253 thousand)	**7**		**4,919,897**	**4,770,306**
4	**Bonds and other fixed-income securities**	**8**			
	Commercial paper from other issuers of which: eligible as collateral with Deutsche Bundesbank €43,880 thousand (previous year: €59,071 thousand)		50,025		69,963
				50,025	**69,963**
5	**Property and equipment**	**9**		**42**	**49**
6	**Other assets**	**10**		**1,423**	**2,493**
7	**Prepaid expenses and deferred income**	**11**		**3,008**	**3,242**
Total assets		**18**		**5,050,095**	**5,168,067**

Liabilities		Notes to the financial statements		2016	2015
1	**Amounts due to banks**	12			
	with agreed maturities or notice period		0		81,087
				0	**81,087**
2	**Amounts due to customers**	13			
	other amounts due				
	a) overnight deposits		2,340		1,807
	b) with agreed maturities or notice period		3,942,844		3,952,394
				3,945,184	**3,954,201**
3	**Other liabilities**	14		**44,095**	**65,966**
4	**Prepaid expenses and deferred income**	11		**42,273**	**47,880**
5	**Deferred tax liabilities**	4		**0**	**179**
6	**Provisions**	15, 16			
	a) Provisions for pensions and similar obligations		8,646		7,887
	b) Provisions for taxes		1,966		2,233
	c) Other provisions		7,931		8,633
				18,543	**18,754**
7	**Equity**	17			
	a) Subscribed capital		5,000		5,000
	b) Capital reserves		995,000		995,000
				1,000,000	1,000,000
Total liabilities		18		**5,050,095**	**5,168,067**
1	**Contingent liabilities**				
	Liabilities under guarantees and warranty agreements	19		2,191	48,419
2	**Other obligations**				
	Irrevocable loan commitments	19		822,740	757,661

Notes to the financial statements

Notes to the financial statements

of Siemens Bank GmbH, Munich, for the fiscal year from October 1, 2015, to September 30, 2016

Basis of accounting in the annual financial statements of Siemens Bank

The annual financial statements of Siemens Bank for the fiscal year ended September 30, 2016, 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 are not relevant to Siemens Bank and have therefore 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 of the 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 commercial paper recognized under this line item is classified as current assets and is measured strictly at the lower amount of cost and fair value.

Property and equipment

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

Cash and cash equivalents and other assets

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

Liabilities

Liabilities are carried at their settlement amounts as of the balance sheet date. Pursuant to section 11 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. As of September 30, 2016, there was a surplus of deferred tax assets. This surplus was not recognized. Accordingly, the deferred tax liabilities recognized for the previous year were derecognized in the income statement.

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 provisions as per September 30, 2016, Siemens Bank adjusted the discount rate from a 7-year average to a 10-year average. Based on the existing profit-and-loss transfer agreement with Siemens AG, income from this adjustment is not subject to the dividend payout restriction.

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

Netting of assets and liabilities, income and expense

Assets whose sole purpose is to satisfy pension obligations or residual partial retirement obligations and that cannot be the subject of a claim by any other creditors are measured at fair value. Income and expenses associated with these assets are netted with the interest cost in connection with the unwinding of discounts on the corresponding obligations and are reported under general 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 settlement 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, 2016, for the recognition of a provision for onerous contracts pursuant to section 340a of the 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.

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:

(%)	2016	2015
Germany	14	17
Elsewhere	86	83

Negative interest included in the interest income and positive interest included in the interest expenses are for the first time disclosed separately in the income statement for the 2016 fiscal year as prior-year figures in the form of a subitem. They result mainly from refinancing transactions with the shareholder. 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)	2016	2015
Risk management and processing services for affiliated companies	18,473	16,560
Risk management services and credit business services for third parties	814	94
Total	**19,286**	**16,654**

3 Other operating income and expense

Other operating income comprises income from the dissolution of provisions; while last year, the item mainly covered income from currency translation.

Other operating expense largely comprises expenses from unwinding the discount on provisions and in connection with additions to certain provisions. Expenses arising from currency translation amounted to €1,809 thousand (previous year: €8,012 thousand). Expenses from unwinding the discount on provisions amounted to €348 thousand (previous year: €589 thousand).

4 Taxes on income

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

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

Deferred tax liabilities for the London branch result mainly from valuation differences for certain receivables purchased within the tax group as well as valuation differences for provisions between the annual financial statements according to the HGB and the tax balance sheet according to English tax law. As of September 30, 2016, this results in a surplus of deferred tax assets. Siemens Bank does not recognize any deferred tax assets. The valuation of deferred taxes is based on a tax rate of 31.12% in Germany and 18.00% in the United Kingdom.

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

Siemens Bank has a profit-and-loss transfer agreement with Siemens AG, its sole shareholder. Under this profit-and-loss transfer agreement, the entire net income after tax determined in accordance with the HGB, amounting to €40,163,760.49, is transferred to Siemens AG.

Balance sheet disclosures

6 Loans and advances to banks

(€'000)	2016	2015
Loans and advances to banks with maturities of	**61,178**	**309,843**
(excluding loan loss allowances and interest accruals)		
up to and including 3 months	61,178	309,843
more than 3 months and up to 1 year	0	0
more than 1 year and up to 5 years	0	0
more than 5 years	0	0

7 Loans and advances to customers

(€'000)	2016	2015
Loans and advances to customers with maturities of	**5,004,669**	**4,803,020**
(excluding loan loss allowances and interest accruals)		
up to and including 3 months	275,412	267,167
more than 3 months and up to 1 year	684,897	619,436
more than 1 year and up to 5 years	1,611,487	1,635,060
more than 5 years	2,432,874	2,281,357

Loans and advances to customers include loans and advances to affiliated companies with a value of €331,486 thousand (previous year: € 244,004). Within this total of amounts due to customers, an amount of €309 thousand is due to the shareholder (previous year: €111 thousand).

8 Bonds and other fixed-income securities

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

9 Statement of changes in fixed assets

The changes in property and equipment over the 2016 fiscal year were as follows:

(€'000)	Cost				
	Oct. 1, 2015	Additions	Transfers	Disposals	Sept. 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	
	Cumula-tive	of which curr. year	of which disposals	2016	2015
Property and equipment	**(60)**	**(18)**	**2**	**42**	**49**
Office furniture and equipment	(60)	(18)	2	42	49

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

(€'000)	Cost				
	Oct. 1, 2014	Additions	Transfers	Disposals	Sept. 30, 2015
Property and equipment	**78**	**29**	**0**	**(13)**	**93**
Office furniture and equipment	78	29	0	(13)	93

(€'000)	Depreciation and write-downs			Carrying amount	
	Cumula-tive	of which curr. year	of which disposals	2015	2014
Property and equipment	**(44)**	**(21)**	**2**	**49**	**47**
Office furniture and equipment	(44)	(21)	2	49	47

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

10 Other assets

Other assets mainly comprise accrued interest from interest rate swaps of €934 thousand (previous year: €41 thousand) and receivables arising from pending incoming payments, the provision of services to third parties and subsidiaries of Siemens AG, and floor premiums. Last year, the item mainly comprised receivables from pending incoming payments.

11 Prepaid expenses and deferred income

(€'000)	2016	2015
Prepaid expenses	**3,008**	**3,242**
Premium on loans and advances	2,482	3,134
Other deferred income	526	108
Deferred income	**42,273**	**47,880**
Discount on loans and advances	20,196	26,628
Other deferred income	22,077	21,252

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

12 Amounts due to banks

(€'000)	2016	2015
Amounts due to banks with maturities of	**0**	**81,000**
(excluding interest accruals)		
up to and including 3 months	0	0
more than 3 months and up to 1 year	0	81,000
more than 1 year and up to 5 years	0	0
more than 5 years	0	0

Last year, amounts due to banks were due to Deutsche Bundesbank. The entire amount was secured by Siemens Bank's loan assets pledged as collateral with Deutsche Bundesbank.

13 Amounts due to customers

(€'000)	2016	2015
Amounts due to customers with maturities of	**3,936,488**	**3,945,814**
(excluding interest accruals)		
up to and including 3 months	682,700	545,271
more than 3 months and up to 1 year	944,190	1,140,351
more than 1 year and up to 5 years	1,541,434	1,362,823
more than 5 years	768,164	897,368

Of the amounts due to customers, €3,740,716 thousand (previous year: €3,766,691 thousand) is accounted for by transactions with affiliated companies. Within this total of amounts due to customers, an amount of €3,595,823 thousand is due to the shareholder (previous year: €3,591,191 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.

14 Other liabilities

The breakdown of other liabilities is as follows:

(€'000)	2016	2015
Other liabilities	**44,095**	**65,966**
Liabilities from profit transfer to the shareholder	40,164	60,487
Withholding tax and duties to be paid	1,975	4,201
VAT liabilities and other items	1,339	749
Personnel-related obligations	617	529

15 Provisions for pensions and similar obligations

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

The majority of current employees at Siemens Bank participate in the Siemens defined contribution plan (BSAV – 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 €766 thousand as of September 30, 2016 (previous year: €594 thousand) and a cost value of €644 thousand (previous year: €510 thousand), are therefore offset against the pension obligations. Income and expenses each in the amount of €172 thousand (previous year: €36 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 €1,848 thousand (previous year: €989 thousand), an amount equivalent to the amount of the pension obligations is therefore offset against the pension obligations.

For the 2016 fiscal year, the total settlement amount for the pension provisions amounted to €10,616 thousand (previous year: €9,414 thousand), of which €1,970 thousand (previous year: €1,527 thousand) was accounted for by indirect obligations. The actuarial measurement of the settlement amount was based on a number of variables, including a discount rate of 4.08% (10-year average) and 3.37% (7-year average) respectively. Last year, the discount rate was 4.12% (7-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: 1.75%). The Heubeck 2005 G modified mortality tables are used to determine the probability of death.

The adjustment of the discount rate from a 7-year average to a 10-year average results in a difference of €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 €30 thousand was offset against free capital provisions in order to determine the dividend payout restriction.

16 Other provisions

The changes in other provisions over the 2016 fiscal year were 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	Sept. 30, 2016
Other provisions	**(492)**	**7,258**	**7,931**
of which with maturities up to 1 year	(490)	6,469	6,571

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

(€'000)	Oct. 1, 2014	Transferred	Utilized
Other provisions	**7,548**	**(21)**	**(6,013)**
of which with maturities up to 1 year	6,607	311	(6,013)

(€'000)	Reversed	New	Sept. 30, 2015
Other provisions	**(246)**	**7,365**	**8,633**
of which with maturities up to 1 year	(242)	7,103	7,766

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

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

(€'000)	2016	2015
Other provisions	**7,931**	**8,633**
Personnel-related provisions	7,672	8,021
Provisions for year-end costs	184	562
Project-related provisions	75	50

17 Equity

As last year, there were no changes to the components of equity in the 2016 fiscal year.

18 Assets and liabilities denominated in foreign currency

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

(€'000)	2016	2015
Assets denominated in foreign currency	2,567,936	2,673,514
Liabilities denominated in foreign currency	2,598,915	2,677,921

Other disclosures

19 Off-balance-sheet transactions

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

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

20 Derivative financial instruments

Siemens Bank only enters into derivative financial instruments to cover risks arising in connection with its banking business. 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. 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.

Siemens Bank held the following derivatives as of September 30, 2016:

	Nominal amount				
		2016		Total amount	
(€'000)	≤ 1 year	>1– 5 years	> 5 years	2016	2015
Interest-rate derivatives					
OTC interest-rate swaps	705,000	0	0	705,000	510,000
Embedded floors	0	18,389	0	18,389	57,383
Currency derivatives					
OTC swaps	292	0	0	292	3,660

The fair values of the derivatives as of September 30, 2016 were as follows:

	Market values (including accrued interest)			
	Positive		Negative	
(€'000)	2016	2015	2016	2015
Interest-rate derivatives				
OTC interest-rate swaps	788	2	(16)	(230)
Embedded floors	0	1,628	0	0
Currency derivatives				
OTC swaps	4	6	0	(59)

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.

Siemens Bank recognized provisions for onerous contracts for interest swap transactions OTC, amounting to €84 thousand (previous year: €225 thousand), which are recorded under other provisions as a component of the provisions for year-end costs.

21 Other financial obligations

Siemens Bank purchases services from affiliated companies and third parties under the terms of outsourcing and purchasing agreements. The following financial obligations are expected for the 2017 fiscal year as a result of these service relationships:

(€'000)	2017
To affiliated companies	19,493
To third parties	4,615
	24,108

22 Employees

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

Employees	2016	2015
Siemens Bank GmbH	**192.4**	**184.4**
Munich branch (and Erlangen)	**158.9**	**151.1**
Employment contracts	165.0	156.2
of which part-time	22.0	17.0
London branch	**33.5**	**33.3**
Employment contracts	33.6	33.4
of which part-time	0.2	0.2

23 Members of the Management Board and Supervisory Board

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

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

Roland Chalons-Browne did not receive any remuneration for his activities in the 2016 fiscal year.

The General Meeting has set up a Supervisory Board with the following members:

- Dr. Peter Moritz, member of the Management Board of Siemens Financial Services GmbH, Munich, and Chief Financial Officer of the Financial Services Division of Siemens AG, and
- Hans-Peter Rupprecht, Chief Executive Officer of Siemens Treasury GmbH, Munich, and Corporate Treasurer of Siemens AG.

Dr. Peter Moritz was elected chairman and Hans-Peter Rupprecht deputy chairman of the Supervisory Board. The members of the Supervisory Board did not receive any remuneration for their activities in the 2016 fiscal year.

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

24 Membership in a corporate group

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

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

Munich, December 8, 2016
The Management Board

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

Audit opinion

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

„We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements together with the bookkeeping system and the management report of Siemens Bank GmbH, Munich, for the fiscal year from October 1, 2015 to September 30, 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements together with the bookkeeping system and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Munich, January 31, 2017
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Loetscher	Adam
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]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Disclosures pursuant to section 26a (1) 2, 4 of the German Banking Act (KWG)

Appendix to the annual financial statements of Siemens Bank GmbH, Munich, for the fiscal year from October 1, 2015, to September 30, 2016

Siemens Bank maintained the following branches in member states of the European Union as of September 30, 2016:

» Germany: Siemens Bank GmbH, Otto-Hahn-Ring 6, 81739 Munich

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

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

	Germany		United Kingdom	
(* €'000)	2016	2015	2016	2015
Business type	Lending and guarantee business Deposit business Fee business		Lending and guarantee business Fee business	
Figures				
Sales revenue*	65,960	86,654	63,660	49,660
Profit before tax*	22,668	42,059	23,248	23,636
Taxes on profit*	(610)	(494)	(5,143)	(4,711)
Government assistance received*	0	0	0	0
Number of employees on payroll	159.3	154.9	31.0	35.0

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 0.8% (previous year: 1.2%).

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

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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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