SIEMENS

Siemens Bank GmbH, Munich

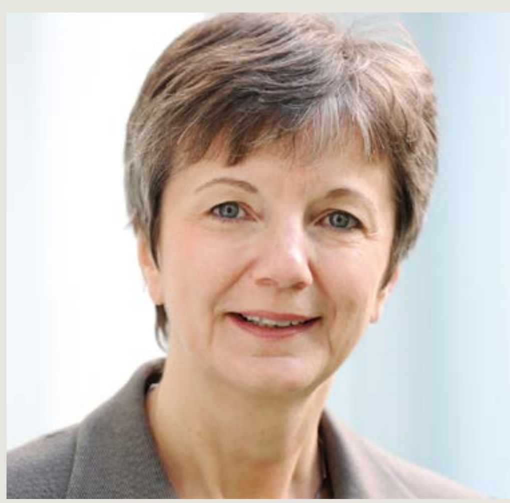
Annual Report

for the fiscal year
from October 01, 2014 to September 30, 2015

siemens.com/finance

Editorial

Roland Chalons-Browne
Managing Director (CEO)



Dr. Ingeborg Hampl
Managing Director (CRO)

Dr. Peter Rathgeb
Managing Director (CFO)

Dear Reader,

Siemens Bank was able to continue its positive development during the past fiscal year: the further expansion of our lending and guarantee business paved the way for healthy growth that was accompanied by a clear increase in profitability.

This development must be viewed all the more positively given the prevailing economic environment: economic activity in key markets of Europe and Asia fell short of expectations.

Continuity and discipline appear to have been the crucial factors in Siemens Bank's successful performance in the period under review. We continued to rely on the three pillars on which our business has been based since its foundation – namely the lending and guarantee business, the deposit and treasury business, and the service business. Our unique combination of risk competence, technological expertise and reliable liquidity and capital base was also well received by the market in fiscal 2014/15.

We demonstrated discipline in our reaction to the increasing pressure on margins, which was driven by historically low interest rates in the euro area in particular. Instead of boosting our growth by embarking on lower-margin activities or increasing the level of risk, we adhered strictly to our investment criteria and risk-oriented earnings expectations, and continued to optimize our credit portfolio.

In general, Siemens Bank is in a better position than ever to support Siemens' growth plans and meet financing requirements in the target markets. A large number of projects demonstrate that we have again been successful on both counts over the previous year.

A few of these projects are mentioned here by way of example: in Turkey we helped set up a public-private partnership (PPP) and arrange long-term loan financing for one of the world's largest new medical centers. In the United Kingdom we were able to provide a refinancing solution for a major port operator. We also joined forces with a banking consortium to finance an investor's acquisition of a 49.9% stake in an offshore wind farm in the Baltic Sea, comprising Siemens wind turbines, and played a leading role in a similar scheme involving an offshore wind farm in the British North Sea, also comprising Siemens wind turbines. In France we worked with two partner banks to structure the refinancing of an operative portfolio of several solar farms, the majority of which have been installed and maintained by Siemens.

In the coming years we plan to continue our tried-and-tested strategy that is geared to sustainable and profitable growth. Specifically, we aim to expand our presence in Asia, thereby giving us a broader geographical base. This will enable us to react more flexibly to developments in individual markets or branches of industry, and to help support Siemens' growth in the Asian markets of the future even more effectively.

We intend to keep on contributing actively to business success with our financing solutions for customers of Siemens AG and its subsidiaries.

Siemens Bank GmbH
The Managing Board

Roland Chalons-Browne
Managing Director (CEO)

Dr. Ingeborg Hampl
Managing Director (CRO)

Dr. Peter Rathgeb
Managing Director (CFO)

Contents

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

Management report

**of Siemens Bank GmbH, Munich,
for the period October 01, 2014 to September 30, 2015**

Management report

of Siemens Bank GmbH, Munich, for the period October 01, 2014 to September 30, 2015

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. Siemens AG, Berlin and Munich, (hereinafter: Siemens AG) established Siemens Bank in 2011 with itself as the sole shareholder, broadening the range of sales-financing products in its 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.

The economic growth predicted in last year's management report did not materialize in fiscal year 2015 to the extent forecast in the outlook, although trends in the various markets with relevance for Siemens Bank varied considerably. According to data published by the Organization for Economic Cooperation and Development (OECD), gross domestic product (GDP) in OECD countries rose in the 2015 calendar year by 0.5 % in the first quarter and by 0.4 % in the second quarter, in both cases in comparison with the corresponding periods in 2014. Whilst the expected strong economic recovery in the US continued, growth rates in Asia - including key emerging markets such as China and India -, even though still at a relatively high level, fell short of expectations, among other reasons due to a significant increase in insecurity regarding this region's future economic development. The euro zone showed moderate economic growth. Boosted by low oil prices and a weak euro exchange rate, the economy grew during the first quarter of 2015, in particular in Spain and Italy, whilst economic development was weaker in other countries, for instance in France. Germany showed average growth rates during this period compared with the euro zone overall. The strain on public finances and restrictive lending terms continues to dampen growth in the southern euro zone countries, and leads to growing uncertainties. Outside the euro zone, Great Britain's GDP was up by 0.4 % and 0.7 % respectively for the first and second quarter. Overall, 2015 saw a moderate recovery of economic development within and outside the euro zone, albeit at a significantly lower level than expected.

To this extent, the main features of the 2015 fiscal year were the ongoing impact from 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 euro zone. Another factor adding to this competition is that many companies are exploiting the favorable capital market conditions to refinance through bonds, or replace existing finance with borrowing on better terms. These developments are squeezing margins in the lending market.

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.

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 ensuring that risks are covered by higher capital requirements, banks are strengthened by greater liquidity buffers, and the resilience of the overall system is increased in the event of a crisis.

At European level, the core legal provisions relating to the agreed reforms, the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV), came into effect on January 1, 2014. The CRD IV provisions were transposed into German law with the CRD IV Implementation Act (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. Other such legal acts were adopted during the fiscal year. 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 a project to implement the CRR/CRD IV reform package. As a consequence of the date on which the central legal provisions at European level came into effect, a major part of the implementation effort already occurred during the course of the 2014 fiscal year. In the 2015 fiscal year, these activities continued, for instance with the implementation of the Delegated Regulation (EU) 2015/61 with regard to the liquidity coverage requirement for credit institutions. However, implementation activities will be sustained at an intensive level in subsequent fiscal years to keep pace with the continuous adoption of the delegated regulations and implementation regulations. It is anticipated that the focus in this context will be the implementation of Regulation (EU) 2015/534 of the European Central Bank on reporting of supervisory financial information (ECB/2015/13).

Also, Siemens Bank is preparing at an early stage 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 (AnaCredit) in accordance with Decision 2014/6 of the European Central Bank.

On the basis of the regulation governing the transfer to the European Central Bank of special tasks in connection with the prudential supervision of banks (SSM-Regulation), the Single Supervisory Mechanism (SSM) transferred the role of the central supervisory authority of banks in the euro zone to the ECB. Since November 2014, the ECB has been directly supervising the largest groups of banks in the euro zone, whereas national regulators continue to be responsible for the prudential supervision of other banks. The Single Supervisory Mechanism (SSM) is complemented by the Single Resolution Mechanism (SRM) on the basis of the SRM Regulation, which in turn ensures that the resolution of a bank subject to the SSM and in serious difficulty can be carried out efficiently and without any great expense for the taxpayer and the real economy irrespective of the more stringent prudential supervision arrangements now in place.

The EU Deposit Guarantee Schemes Directive adopted in the 2014 fiscal year focuses in particular on the simplification and harmonization of protected deposits, faster repayment, and on improved funding for deposit protection schemes. In July 2015, the provisions of the Directive were transposed into German national law through the Deposit Guarantee Act (EinSiG) which replaces the former Deposit Guarantee and Investment Protection Act (EAEG). This did not lead to any major substantive consequences for Siemens Bank. The obligations arising from the EinSiG to provide regular information and reports on the structure of reimbursable and covered deposits have been implemented by Siemens Bank.

In December 2014, the Basel Committee on Banking Supervision published a proposal for the revision of the Credit Risk Standardized Approach (BCBS 307). The objective of this proposal is, inter alia, to improve the granularity and risk sensitivity by adjusting the calibration of risk weighting. For Siemens Bank, this would result in higher capital requirements in some portfolio categories. Therefore, the further development of this Basel proposal is continuously monitored by Siemens Bank, including an analysis of its effects.

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

1.4 Business performance

Despite the persistently challenging economic and regulatory environment characterized by intense competition and a number of unpredictable factors and uncertainties, Siemens Bank can once again look back on a successful fiscal year. 2015 was in particular characterized by the continued expansion of the lending and guarantee business, as well as a further increase in profitability. Overall, the performance of Siemens Bank was in line with the expectations made by the Bank's management.

Net assets

In the 2015 fiscal year as in the previous year, Siemens Bank focused on the continuing expansion of business operations in its **core activity, the lending and guarantee business**. In the 2015 fiscal year, lending book volume at Siemens Bank once more grew significantly by approximately 15% (previous year: 30%).

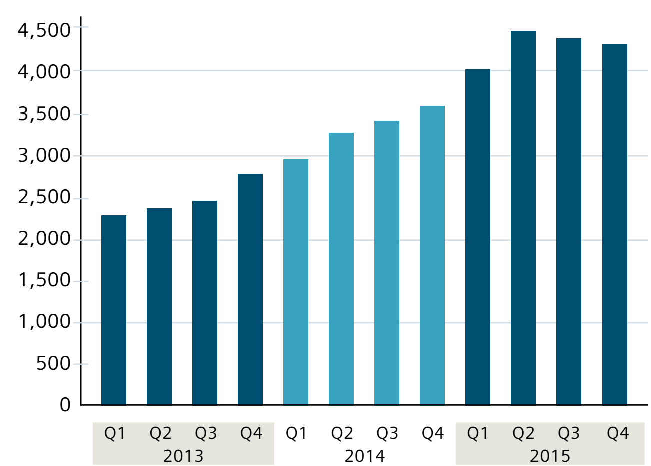


Figure 1: Growth in loans and advances to customers in the lending and guarantee business (€ million)

The continuous growth in this area of business is also reflected in the still significant portfolio of irrevocable lending commitments amounting to €758 million (previous year: €782 million), whilst contingent liabilities from bonds and guarantee contracts continue to be of minor significance for Siemens Bank, in spite of a substantial increase.

Whilst this credit portfolio grew continuously and substantially during fiscal years 2013 and 2014, this growth lost momentum during the second half of fiscal year 2015. This is due on the one hand to premature repayments by customers. On the other hand, Siemens Bank was more selective during the second half of the year with regard to entering into risks which offer an attractive risk-return profile in the current market environment. Therefore, volume development of this credit portfolio fell short of the Bank's expectations.

The focus of this credit portfolio in fiscal year 2015, as in the previous year, was on activities in the areas Power, Oil & Gas and Energy Management, Mobility and Industry. The portfolio in the area of Healthcare and Leveraged Finance continues to be under development and therefore remains of minor significance within Siemens Bank. In this context, the relative significance of the area Power, Oil & Gas continued to increase in fiscal year 2015, as the portfolio in the area Energy Management, Mobility and Industry only showed minor growth, caused by 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, fell from €300 million to €241 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 portfolios in the lending and guarantee business, this credit portfolio 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 as well as under loans and advances to customers – is closely linked to the change in the volume of the deposit business with Siemens AG and its subsidiaries. Overall, the liquidity investment volume has diminished sharply, in line with expectations, since the end of the 2013 fiscal year, although there have been fluctuations during the course of the subsequent years. This decrease even led to an overall fall in the total assets of Siemens Bank during the 2014 fiscal year. In prior years, Siemens Bank invested a very high proportion of these deposits with other banks – including Deutsche Bundesbank, the

German central bank – with the particular objective of achieving both positive returns and the highest possible level of security. Currently, a large proportion of this liquidity is invested in short-term promissory note loans to investment-grade issuers.

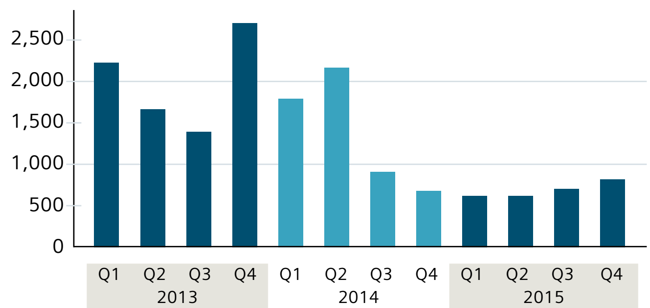


Figure 2: Change in liquidity-related investments in the deposit and treasury business (€ million)

Financial position

The business activities of Siemens Bank are largely refinanced by deposits and equity. Although by far the largest proportion of deposits is made by Siemens AG and its subsidiaries, Siemens Bank has also succeeded in attracting deposit customers from outside the Group. However, Siemens Bank does not accept retail banking deposits. In addition, a small portion of the business volume has been refinanced 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 credit 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.

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

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

Results of operations

A noticeable feature of the 2015 fiscal year was the continued improvement in net interest income and therefore in the net operating income of Siemens Bank.

(€ million)	2015	2014	2013
Net interest income	113.1	91.4	75.6
Net fee and commission income	16.5	14.2	17.1
General administrative expenses	-51.2	-45.7	-38.4
Other income and expenses. net	6.6	6.5	-1.3
Net operating income before allowances for losses on loans and advances	**85.0**	**66.4**	**53.0**
Allowances for losses on loans and advances	-19.3	-16.5	-12.8
Net operating income	**65.7**	**49.9**	**40.2**

Figure 3: Components of Siemens Bank income

Net interest income at Siemens Bank arises from the spread between interest income on loans and investments on one side and refinancing-related interest expense on the other. Interest terms also reflect the effect of inflation. The substantial improvement in net interest income reflects Siemens Bank's expectations and is attributable to the further rise in the volume of loans and advances to customers in the core activity, the lending and guarantee business, compared with prior years as well as to the perpetuation of the build-up of this portfolio since the 2013 fiscal year. Furthermore, Siemens Bank benefited from the euro currency devaluation, in particular against the USD and the GBP, as a major part of the credit portfolio is denominated in these currencies. The net interest margin contribution from the lending and guarantee business generates most of the net interest income. Liquidity investments in the deposit and treasury business normally generate lower interest margins.

Given the further expansion in the lending and guarantee business, the **net fee and commission income** has subordinate significance for the results of operations at Siemens Bank. Compared to the 2013 fiscal year, the contribution of the net fee and commission income to results of operations has even declined significantly. 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.

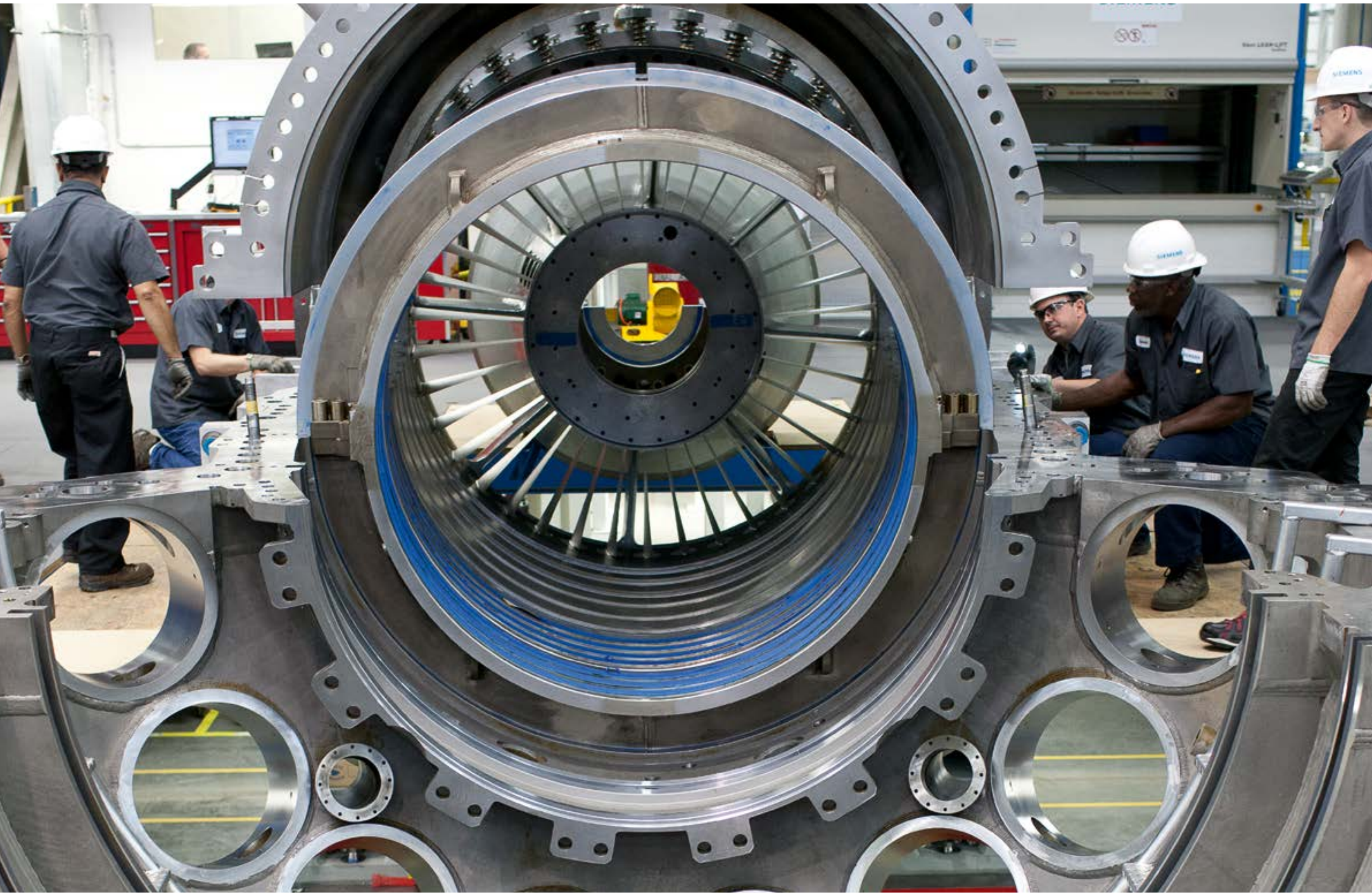
An essentially constant portion of 59 % of **general administration expenses** at Siemens Bank is attributable to personnel expenses (previous year: 61 %). Siemens Bank employees are not only responsible for carrying out the banking operations as such, but also for providing risk management and processing 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. In line with expectations, the significant increase in general administration expenses in the 2015 fiscal year nevertheless is substantially smaller than the increase in net interest income. It is mainly due to the expansion of business activities in the lending and deposit business, the further development in IT infrastructure since the 2014 fiscal year, and the German bank levy which was revised in 2015.

Other net operating income is for the most part determined by income from currency valuations.

Whilst the lending book once again grew significantly in the 2015 fiscal year, the relative contribution from **allowances for losses on loans and advances** to net operating income declined slightly compared to the previous year. **Allowances for losses on loans and advances** increased in line with the Bank's expectations and was recognized at a modest level in the 2015 fiscal year, however, given the excellent credit quality of the loans and advances portfolio held by Siemens Bank, this growth was at an essentially stable ratio of these allowances to net operating income before allowances for loan losses.

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

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



2 Risk report

2.1 Risk strategy

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

2.1.1 Objective

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

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

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 risk inventory is then used to construct the risk strategy objectives and action plans, the implementation of which is monitored as part of the overall risk reporting system.

2.1.2 Regulatory requirements

The regulatory requirements for risk management, capital adequacy and liquidity together form the regulatory framework for the risk management system at Siemens Bank. In particular, Siemens Bank ensures that it complies at all times with the requirements of the Capital Requirements Regulation (CRR), the Capital Requirements Directive IV (CRD IV), and the related regulations and circulars. This includes 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 obligo 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 credit portfolio management in that it specifies appropriate action and sets out the requirements for managing operational risk. In particular, the Risk Committee is responsible for managing and monitoring the credit portfolio.

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

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

Default risk is largely reported within the context of the monthly credit risk report. Reports focus on the economic and regulatory capital requirement for the credit risks 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 thousand are reported on an ad hoc basis to the Management Board. Additionally a detailed report is prepared showing the results of the yearly self-assessment as well as the resulting action plans. The implementation of these action plans is monitored in separate, quarterly reports.

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

2.2.2 Internal control system for accounting processes

Objective

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

Responsibilities

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

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

Procedures

The procedures and the internal control system for accounting processes are fully documented in process descriptions and work instructions. Accounting 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 Accounting, Controlling and Regulatory Reporting 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 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. At least once a year a calculation is prepared based on the going concern method with a risk horizon of one year and a confidence level of 95%.

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, 2015, the risk taking potential of Siemens Bank consisted of the following:

(€ million)	2015	2014
Tier 1 capital	1,000.0	1,000.0
Tier 2 capital	24.0	15.0
Additional risk taking potential	320.2	307.1
Total risk taking potential	**1,344.2**	**1,322.1**

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 non-material risks are quantified separately.

- Prepayment risk
- Business risk in terms of net present value margin risk

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

The allocation of the risk taking potential and the capital requirement as of September 30, 2015 was as follows:

(€ million)	2015		2014	
Risk taking potential in stress scenario	1,325.4		1,306.6	
thereof additional risk taking potential in stress scenario	302.0		291.6	
thereof core risk taking potential	1,023.4		1,015.0	
	Risk taking potential	**Required risk capital**	**Risk taking potential**	**Required risk capital**
Risk capital for operational risk	13.0	13.0	8.0	8.0
Risk capital for default risk	600.0	271.4	600.0	234.3
Risk capital for market risk	30.0	7.7	10.0	2.5
Risk capital for refinancing risk	20.0	8.8	30.0	2.9
Normal case	**663.0**	**301.0**	**648.0**	**247.6**
Risk capital for operational risk		17.0		14.0
Risk capital for default risk		408.0		375.5
Risk capital for market risk		13.0		3.6
Risk capital for refinancing risk		13.4		5.7
Risk capital for business risk		150.9		52.1
Risk capital for prepayment risk		0.0		20.3
Buffer for other non-material risks		17.8		17.8
Stress Case Total	**1,325.4**	**620.2**	**1,306.6**	**489.0**

Figure 5: Allocation of the available risk taking potential and risk 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 non-material risks as well as risks in a stress scenario. Only the core risk taking potential is used to cover the material risks. To quantify the internal capital requirement for default risk, market risk, 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 non-material – such as strategic risk, and model risk – are together covered by an overall safety buffer.

Utilization of the risk taking potential in the stress scenario increased from €489.0 million to €620.2 million during the fiscal year, whilst the risk taking potential under stress merely increased by €19.4 million. The highest utilization of the risk taking potential was recorded towards the end of the third quarter, with €639.8 million and a risk taking potential under stress of €1,336.2 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, non-material risks is reported as utilizing the full amount of the corresponding available risk taking potential. The same also applies to operational risk as the required risk capital in this case is determined in accordance with the basic indicator approach as specified in CRR.

The most significant risk is 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, 2015, the composition of regulatory capital at Siemens Bank was as follows:

(€ million)	2015	2014
Tier 1 Capital	**999.4**	**999.7**
Paid-up capital instruments	5.0	5.0
Adjustments due to the requirements for prudent valuation	-0.6	-0.3
Capital reserves and other eligible reserves	995.0	995.0
	999.4	**999.7**
Tier 2 Capital		
Total tier 2 capital before capital adjustment items pursuant to section 10 (2b) KWG	24.0	15.0
Adjustment items for tier 2 capital pursuant to section 10 (6) and (6a) KWG	0.0	0.0
	24.0	**15.0**
Total modified available capital pursuant to section 10 (1d) KWG	**1,023.4**	**1,014.7**

Figure 6: Composition of regulatory capital as of September 30, 2015

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)	2015	2014
1. Default risk		
Standardized credit risk approach		
Central governments	1.6	1.6
Institutions	6.4	7.0
Corporates	357.1	308.6
Other	0.3	0.1
Overdues	4.2	0.0
Sum of default risk	**369.6**	**317.3**
2. Market risk		
Standardized approach	5.5	9.3
- thereof: currency risk	5.5	9.3
Sum market risk	**5.5**	**9.3**
3. Operational risk		
Basic indicator approach	12.7	8.1
Sum operational risk	**12.7**	**8.1**
Total capital requirements	**387.8**	**334.6**

Figure 7: Regulatory capital requirements as of September 30, 2015

Siemens Bank must ensure a total capital ratio of 8 % as per CRR. 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, 2015, the total capital ratio (previously: overall indicator) for Siemens Bank was 21.12 % according to the final financial statements (previous year: 24.26 % 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 (previously: core capital indicator) of 20.62 % according to the final financial statements (previous year: 23.90 %). Both ratios are therefore markedly higher than the total capital ratio of 8 % specified by the regulatory requirements.

The difference between the required regulatory capital of €387.8 million (previous year: €334.6 million) and the required economic risk capital in the normal scenario of €301.0 million (previous year: €247.6 million) and in the stress scenario of €620.2 million (previous year: €489.0 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, 2015 Siemens Bank was only exposed to issuer risk through commercial paper positions with maturities of less than one year. For the next fiscal year, Siemens Bank plans a controlled expansion of its issuer risk.

2.3.1 Risk classification

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

Siemens Bank has defined 10 rating classes to enable it to achieve a meaningful differentiation between credit ratings. There are up to three further subclasses within each rating class (e.g., 3+, 3, 3-). This system 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 credit portfolio is managed using an integrated approach comprising management of expected and unexpected losses, procedures for early detection of risk, stress testing procedures, and a comprehensive assessment approach of new business.

Expected loss

To determine the expected loss, the Bank forecasts the average loss it expects based on the current credit rating and the current expected recovery rate for each and every borrower. The expected loss is a key figure in portfolio analysis and a key input variable for pricing new business. When determining risk as part of portfolio analysis, the expected loss is calculated for a period of one year; the maturity of the exposure is used for the purposes 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 credit portfolio risk and determine the economic capital requirement. The credit value at risk serves to quantify an unexpected loss and is a key risk variable in portfolio modeling. In this calculation, Siemens Bank uses a risk horizon of one year and a confidence level of 99.95%. The confidence level is derived from Siemens Bank's target rating of A/A-. Credit risk modeling at the portfolio level uses a simulation-based asset-value model. The asset-value model simulates the probability of default of the borrower using the borrower's return on company value. To determine the return on company value, Siemens Bank uses a multifactor model comprising both macroeconomic and borrower-specific factors. Customers with similar economic characteristics are aggregated into risk units in order to calculate the unexpected loss. The stronger the correlation between a risk unit and macroeconomic factors, the greater the fluctuation in this unit's probability of default 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 credit portfolio is generated from the resulting changes in the probability of default. In addition to the correlations of the risk units, another key input variable for the Monte Carlo simulation is the probability of a credit rating migration. To obtain this data, the Bank draws up a table based on historical credit rating migrations. At each stage in the Monte Carlo simulation, the table provides the probability of migration to a better or worse rating category for each risk unit. The simulated loss distribution takes into account 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. The credit value at risk and the risk contributions for the risk units are then derived from the loss distribution. In addition to the credit value at risk, the risk contributions from the largest portfolios and segments are also calculated in order to measure concentration risk.

Country risk

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

Backtesting

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

Pricing

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

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

The model scenarios used for the stress tests take into account both historical scenarios and the strategic direction currently being pursued by Siemens Bank. At the core of the scenarios is a macroeconomic approach that simulates the impact of a recession on the credit 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. 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, 2015, Siemens Bank had total recognized individual and general loan loss provisions of €23.7 million (previous year: €15.6 million).

2.3.5 Analysis of the credit portfolio as of September 30, 2015

The required economic capital for default risk as of September 30, 2015 was €271.4 million. The allocated risk taking potential was €600.0 million. During the first half of the fiscal year, the utilization of the risk taking potential consistently increased in line with the overall portfolio, and reached its maximum of €287.6 million at the end of the third quarter. The amount of required capital is largely determined by the credit portfolio volume, borrower credit ratings, collateralization and borrower industrial sectors.

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

As of September 30, 2015, the credit 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 € 4,893.2 million (previous year: €4,297.7 million), of which €4,482.7 million (previous year: €4,077.7 million) was attributable to corporate and project financing and €410.5 million (previous year: €220.0 million) to public-sector borrowers.

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

A breakdown of the Siemens Bank credit portfolio by credit rating as of September 30, 2015, is shown in the following table:

(€ million) Rating category	2015 Outstanding	2014 Outstanding
1	13.4	0.0
2+	2.0	0.0
2	65.5	64.3
2-	429.5	243.0
3+	97.6	100.4
3	100.0	100.0
3-	142.7	144.2
4+	196.0	190.9
4-	598.6	670.2
5+	608.9	875.5
5-	734.3	786.9
6+	747.6	465.5
6-	631.7	271.2
7+	161.8	91.7
7-	211.9	237.1
8+	94.6	25.4
8-	13.5	0.0
9	27.7	27.7
10	15.8	3.8
Total	4,893.2	4,297.7

Figure 8: Credit portfolio by rating category

As of September 30, 2015, the investment grade exposure (rating 1 through 5+) totaled €2,254.2 million, and the non-investment grade exposure (rating 5- through 10) totaled €2,639.0 million. There was a total of €27.7 million of credit exposure with a high likelihood of default (rating 9) as of September 30, 2015. As of September 30, 2015, defaults in the credit portfolio totaled €15.8 million (rating 10). All transactions in the lending and guarantee business are usually collateralized transactions. Non-collateralized loans are in general only granted to customers with an investment grade rating.

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

(€ million)	2015 Outstanding	2014 Outstanding
EU excluding the euro zone	1,429.3	816.7
Germany	1,010.6	1,080.8
Asia	792.5	596.7
Europe excluding the EU	734.0	582.1
Euro zone excluding Germany	579.9	856.9
Australia/Oceania	188.6	197.9
Others	158.3	166.7
Total	4,893.2	4,297.7

Figure 9: Breakdown of credit 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 bank-wide level. Liquidity risk controlling continuously monitors compliance with these limits. If a limit is exceeded, the ALM Committee has to be informed without delay and action has to be initiated to restore compliance with the limit. The operational management is the responsibility of the Treasury department of Siemens Bank. Siemens Bank takes on refinancing positions 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, possible drawings from the guarantee exposure as well as possible and imminent losses in the credit portfolio. The assumptions made allow Siemens Bank to draw up a 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 the Deutsche Bundesbank is not included in the buffer. To ensure compliance with the liquidity coverage ratio, Siemens Bank is establishing 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.

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, 2015

The liquidity gap profile comprising deterministic, optional and modeled cash flows shows negative cumulative cash flows in 9 to 36 month time buckets as of September 30, 2015. All short-term cumulative cash flows up to 9 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, 2015, this buffer (comprising assets eligible as collateral with central banks) amounted to €625.3 million (previous year: €564.6 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, 2015, a liquidity value at risk of €7.7 million (previous year: €2.9 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.

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 purposes of mitigating risk. To the greatest possible extent, Siemens Bank therefore avoids market risk positions and only enters into such transactions within tightly specified 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 the Bank's 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, 2015

As of September 30, 2015, the required economic capital for market risk was €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. The allocated risk taking potential increased from €10 million to €20 million 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, 2015

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, 2015 was €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 bank-wide level.

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

3 Other information

Since the 2012 fiscal year, Siemens Bank has maintained a branch in London, United Kingdom, where it 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 group-wide programs and initiatives in 2015 under the auspices of Siemens AG, such as

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

No non-financial performance indicators were used during the 2015 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 re-confirmation of its credit rating by Moody's credit rating agency in September 2015. 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 2015, the Economic and Monetary Policy Committee of the Association of German Banks (Ausschuss für Wirtschafts- und Währungspolitik des Bundesverbandes deutscher Banken) predicts that the global economy will grow by a maximum of 3.0 % over the remainder of the 2015 calendar year. For the next calendar year, the committee predicts a slight acceleration in growth to 3.5 %, whereby the high growth rates seen in the past are considered to be unachievable for quite some time. In this context, the committee is acting on the assumption that development in the various economic regions will continue to vary. For emerging markets, growth is expected to be weaker than in the past; in particular for China, the potential of uncertainty regarding future development is growing. Further stabilization is predicted for the industrialized countries, whereby the main impetus for growth is expected to come from the US. The committee forecasts that the economic recovery in the euro zone will continue at a slow pace, supported by low oil prices, a weak euro exchange rate and low interest rates. However, a growth rate of merely 1.4 % and 1.6 % is expected for calendar years 2015 and 2016 respectively. In particular for the periphery states of the euro zone, the committee expects, however, that economic recovery will be relatively strong, due to the reform efforts which have been undertaken. 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 2.5 % over the whole of 2015, and 2.4 % in 2016. Siemens Bank believes that all these forecasts are significantly below the growth forecasts seen in previous years, reflecting an increased level of uncertainty regarding general economic development.


SIEMENS
SIEMENS

However, Siemens Bank shares the expectation that the growth in key markets apparent in 2015 will continue at a moderate level in 2016 and beyond. Nevertheless, Siemens Bank also believes that the global economy is facing a number of serious uncertainties, such as increasing uncertainty in important emerging markets such as China, due to declining growth rates, ongoing structural problems in the euro zone and a series of geopolitical crises, the effects of which are impossible to assess at the moment.

However, Siemens Bank believes that the demand for project finance and investment loans will be sustained at a high level. Given the Bank's broad diversification of business across industries and regions, Siemens Bank also believes that it will be able to offset any adverse effects 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 attractive growth opportunities in its lending and guarantee business.

Business performance of Siemens Bank in 2016

At the beginning of the 2016 fiscal year, Siemens Bank, as part of the Siemens Financial Services Division, continued to develop the organization of the lending and guarantee business: In future, this business will be divided into the main departments

» Energy Finance and

» Industry and Healthcare Finance.

With this organizational realignment, Siemens Bank intends to further optimize its sales structure, to utilize synergy potentials in back office processes, and, in particular, to streamline intra-organizational procedures.

Despite economic uncertainties, Siemens Bank is expecting to be able to consolidate the successful and profitable path of growth during the next fiscal year. In this context, the Bank sees further development and growth potential, in particular in the well-established presence in London's financial center, the accelerated expansion of business activities in the Asian region, and in the income derived from the credit portfolio it has built up to date. At the same time, however, the Bank intends to continue to avoid excessive credit risk. Due to the developments of the economic environment described above, Siemens Bank nevertheless sees risks for its business plans, caused by an increased level of uncertainty compared with past years.

For the 2016 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 see a moderate increase. The Bank believes that this effect on business volume and net interest income will be exceeded by the impact from continued higher growth in loans and advances to customers as part of its lending and guarantee business. The planned further expansion of business activities in Asia, especially the further development of the credit portfolio with Asian customers, is also expected to generate a positive impact on the Bank's net interest income. This, together with other factors, is expected to lead to moderate 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 2016 fiscal year will continue to be provided largely by Siemens AG and its subsidiaries. In addition, given the forecast increase in net interest income, risk management and processing services will continue to become less important as a pillar of the business and as a component of the Bank's results of operations.

According to Siemens Bank's business plan, the further expansion of business activities in Asia and the envisaged business growth in other regions will lead to a further increase in general administration expenses, which will, however, be in proportion with the scope of the business activities.

As 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 entering into higher risks, allowances for losses on loans and advances are predicted to only increase moderately. However, this forecast is subject to the uncertainty that negative developments in individual regional markets or industry may lead to an increase in loan defaults compared to past years.

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

Income statement

of Siemens Bank GmbH, Munich,
for the fiscal year from October 01, 2014 to September 30, 2015 (€'000)

Income statement

of Siemens Bank GmbH, Munich,
for the fiscal year from October 01, 2014 to September 30, 2015 (€'000)

		Notes to the financial statements		2015	2014
1	**Interest income from**	1			
	a) Lending and money market business		159,357		136,994
	b) Fixed-income securities and registered debt		1,761		318
				161,118	**137,312**
2	**Interest expense**			**-48,024**	**-45,905**
3	**Fee and commission income**	1, 2		**16,654**	**15,316**
4	**Fee and commission expense**			**-199**	**-1,117**
5	**Other operating income**	1, 3		**8,012**	**7,236**
6	**General administration expenses**				
	a) Personnel expenses				
	aa) Wages and salaries		-25,664		-23,882
	ab) Social security, post-employment and other employee benefit costs		-4,492		-4,032
	of which: in respect of pensions €-2,522 thousand (previous year: €-2,388 thousand)			-30,156	-27,913
	b) other administrative expenses			-21,009	-17,743
				-51,165	**-45,657**
7	**Amortization and write-downs of intangible assets, depreciation and write-downs of property and equipment**			**-21**	**-17**
8	**Other operating expenses**	3		**-1,374**	**-774**
9	**Write-downs of receivables and certain securities and additions to provisions in the lending business**			**-19,305**	**-16,475**
10	**Result from ordinary activities**			**65,695**	**49,920**
11	**Taxes on income**	4		**-5,205**	**-4,517**
	of which: deferred taxes €-179 thousand (previous year: €0 thousand)				
12	**Other taxes, if not included under item 8**			**-4**	**-2**
13	**Profit transferred under a profit-and-loss transfer agreement**	5		**-60,487**	**-45,401**
14	**Net income for the year**			**-0**	**0**
15	**Distributable profit**			**-0**	**0**

Balance sheet

of Siemens Bank GmbH, Munich, as of September 30, 2015 (€'000)

Assets		Notes to the financial statements		2015	2014
1	**Cash and cash equivalents**				
	Credit balance with central banks		12,176		11,288
	of which: with Deutsche Bundesbank €12,176 thousand (previous year: €11,288 thousand)				
				12,176	**11,288**
2	**Loans and advances to banks**	6			
	a) Repayable on demand		47,532		37,723
	b) Other loans and advances		262,305		194,001
				309,837	**231,723**
3	**Loans and advances to customers**	7		4,770,306	**4,251,703**
	of which: secured by charge over real estate €0 thousand (previous year: €0 thousand)				
	of which: loans to public sector entities €290,253 thousand (previous year: €180,487 thousand)				
4	**Bonds and other fixed-income securities**	8			
	Commercial paper from other issuers		69,963		24,998
	of which: eligible as collateral with Deutsche Bundesbank €59,071 thousand (previous year: €0 thousand)				
				69,963	**24,998**
5	**Property and equipment**	9		49	**47**
6	**Other assets**	10		2,493	**1,050**
7	**Prepaid expenses**	11		3,242	**2,561**
Total assets		18		5,168,067	4,523,370

Equity and liabilities		Notes to the financial statements		2015	2014
1	**Amounts due to banks**	**12**			
	With agreed maturities or notice period		81,087		20,001
				81,087	**20,001**
2	**Amounts due to customers**	**13**			
	Other liabilities				
	a) Repayable on demand		1,807		2,459
	b) With agreed maturities or notice period		3,952,394		3,433,034
				3,954,201	**3,435,494**
3	**Other liabilities**	**14**		**65,966**	**3,385**
4	**Deferred income**	**11**		**47,880**	**47,949**
5	**Deferred tax liabilities**	**4**		**179**	**0**
6	**Provisions**	**15, 16**			
	a) Provisions for pensions and similar obligations		7,887		6,624
	b) Provisions for taxes		2,233		2,370
	c) Other provisions		8,633		7,548
				18,754	**16,543**
7	**Equity**	**17**			
	a) Subscribed capital		5,000		5,000
	b) Capital reserves		995,000		995,000
				1,000,000	**1,000,000**
Total equity and liabilities		**18**		**5,168,067**	**4,523,370**
1	**Contingent liabilities**				
	Liabilities under guarantees and warranty agreements	19		48,419	26,653
2	**Other obligations**				
	Irrevocable loan commitments	19		757,661	782,469

Notes to the financial statements

**of Siemens Bank GmbH, Munich,
for the fiscal year from October 01, 2014 to September 30, 2015**

Notes to the financial statements

of Siemens Bank GmbH, Munich, for the fiscal year from October 01, 2014 to September 30, 2015

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, 2015 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 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 tax liabilities

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. No amounts are recognized for deferred tax assets.

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.

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 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 evidence takes the form of a comparison between the net present value for the banking book and its net carrying amount. If the net carrying amount is greater than the net present value, there is a requirement for the recognition of a corresponding provision. As in the previous year, there was no requirement as of September 30, 2015 for the recognition of a provision for onerous contracts pursuant to section 340a HGB in conjunction with section 249 (1) sentence 1 HGB.

Currency translation

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

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

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

Income statement disclosures

1 Geographical breakdown

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

(%)	2015	2014
Germany	17	19
Elsewhere	83	81

2 Fee and commission income

Fee and commission income is derived from the following services:

(€'000)	2015	2014
Risk management services for affiliated companies	16,560	15,144
Risk management services and credit business services for third parties	94	172
Total	**16,654**	**15,316**

3 Other operating income and expense

Other operating income largely comprises income from currency translation. Income arising from currency translation amounted to €8,012 thousand (previous year: €6,949 thousand).

Other operating expense largely comprises expenses from unwinding the discount on provisions and in connection with additions to certain provisions. Expenses from unwinding the discount on provisions amounted to €589 thousand (previous year: €506 thousand).

4 Taxes on income

For both income tax and VAT purposes, the German activities of Siemens Bank form an integral part of the tax group of Siemens AG, Berlin and Munich (hereinafter: Siemens AG). Taxes on income for German activities therefore only include current 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 and liabilities as well as provisions between the annual financial statements according to HGB and the tax balance sheet according to English tax law. Siemens Bank does not recognize any deferred tax assets. The valuation of deferred taxes is based on a tax rate of 20 %.

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

Siemens Bank has a profit-and-loss transfer agreement with Siemens AG, its sole shareholder. Under this profit-and-loss transfer agreement, the entire net income after tax determined in accordance with HGB, amounting to €60,486,605.18, is transferred to Siemens AG.

Balance sheet disclosures

6 Loans and advances to banks

(€'000)	2015	2014
Loans and advances to banks with maturities of	**309,843**	**231,723**
(excluding loan loss allowances and interest accruals)		
up to and including 3 months	309,843	231,723
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)	2015	2014
Loans and advances to customers with maturities of	**4,803,020**	**4,271,060**
(excluding loan loss allowances and interest accruals)		
up to and including 3 months	267,167	158,433
more than 3 months and up to 1 year	619,436	546,643
more than 1 year and up to 5 years	1,635,060	1,654,256
more than 5 years	2,281,357	1,911,728

Loans and advances to customers include loans and advances to affiliated companies with a value of €244,004 thousand (previous year: € 304,587).

8 Bonds and other fixed-income securities

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

9 Statement of changes in fixed assets

The changes in property and equipment over the 2015 fiscal year were as follows:

(€'000)	Cost				
	Oct. 1, 2014	Additions	Transfers	Disposals	Sep. 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	
	Cumulative	of which curr. yr.	of which disposals	2015	2014
Property and equipment	**-44**	**-21**	**2**	**49**	**47**
Office furniture and equipment	-44	-21	2	49	47

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

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

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

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

10 Other assets

Other assets largely comprise receivables arising from pending incoming payments, the provision of services to third parties and subsidiaries of Siemens AG, and floor premiums.

11 Prepaid expenses and deferred income

(€'000)	2015	2014
Prepaid expenses	**3,242**	**2,561**
Premium on loans and advances	3,134	2,357
Other deferred income	108	204
Deferred income	**47,880**	**47,949**
Discount on loans and advances	26,628	28,785
Other deferred income	21,252	19,164

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

12 Amounts due to banks

(€'000)	2015	2014
Amounts due to banks with maturities of	**81,000**	**20,000**
(excluding interest accruals)		
up to and including 3 months	0	0
more than 3 months and up to 1 year	81,000	0
more than 1 year and up to 5 years	0	20,000
more than 5 years	0	0

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

13 Amounts due to customers

(€'000)	2015	2014
Amounts due to customers with maturities of	**3,945,814**	**3,426,576**
(excluding interest accruals)		
up to and including 3 months	545,271	360,759
more than 3 months and up to 1 year	1,140,351	240,623
more than 1 year and up to 5 years	1,362,823	1,888,804
more than 5 years	897,368	936,389

Of the amounts due to customers, €3,766,691 thousand (previous year: €3,418,466 thousand) is accounted for by transactions with affiliated companies. Within this total of amounts due to customers, an amount of €3,591,191 thousand is due to the shareholder (previous year: €3,234,339 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)	2015	2014
Other liabilities	**65,966**	**3,385**
Liabilities from profit transfer	60,487	0
Withholding tax and duties to be paid	4,201	1,747
VAT liabilities and other items	749	925
Personnel-related obligations	529	713

Last year, the liability resulting from the profit transfer was reported under amounts due to customers.

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 €594 thousand as of September 30, 2015 (previous year: €558 thousand) and a cost value of €510 thousand (previous year: €478 thousand), are therefore offset against the pension obligations. Income and expenses each in the amount of €36 thousand (previous year: €110 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 €989 thousand (previous year: €853 thousand) an amount equivalent to the amount of the pension obligations is therefore offset against the pension obligations.

For the 2015 fiscal year, the total settlement amount for the pension provisions amounted to €9,414 thousand (previous year: €8,002 thousand), of which €1,527 thousand (previous year: €1,378 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 4.12 % (previous year: 4.70 %) and a pension growth rate of 1.75% per annum (previous year: 1.75 %). The Heubeck 2005 G modified mortality tables are used to determine the probability of death.

The average market interest rate published by Deutsche Bundesbank as of September 30, 2015 for maturities of 15 years was 4.07 %. As the changes in the actuarial interest rate between August 2015 and September 2015 would only have minor effects on the amount of the obligation value to be recorded, Siemens Bank has refrained from a re-valuation of the pension obligations. Given the structure of the main pension schemes, measurement assumptions relating to increases in wages and salaries including career trends are of no material significance in determining pension obligations at Siemens Bank.

16 Other provisions

The changes in other provisions over the 2015 fiscal year were 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	Sep. 30, 2015
Other provisions	**-246**	**7,365**	**8,633**
of which with maturities up to 1 year	-242	7,103	7,766

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

(€'000)	Oct. 1, 2013	Transferred	Utilized
Other provisions	**5,313**	**1**	**-4,402**
of which with maturities up to 1 year	4,795	22	-4,402

(€'000)	Reversed	New	Sep. 30, 2014
Other provisions	**-333**	**6,969**	**7,548**
of which with maturities up to 1 year	-330	6,522	6,607

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

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

(€'000)	2015	2014
Other provisions	**8,633**	**7,548**
Personnel-related provisions	8,021	7,172
Provisions for year-end costs	562	358
Project-related provisions	50	18

Data from previous year were adjusted due to reclassification.

17 Equity

There were no changes to the components of equity in the 2015 fiscal year.

In the 2014 fiscal year, Siemens AG, the sole shareholder in Siemens Bank, added an amount of €500,000 thousand in cash to the capital reserves on December 6, 2013.

18 Assets and liabilities denominated in foreign currency

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

(€'000)	2015	2014
Assets denominated in foreign currency	**2,673,514**	**2,381,998**
Liabilities denominated in foreign currency	**2,677,921**	**2,347,426**

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, 2015:

	Nominal amount				
	2015			Total amount	
(€'000)	≤ 1 year	>1 – 5 years	> 5 years	2015	2014
Interest-rate derivatives					
OTC interest-rate swaps	510,000	0	0	510,000	230,000
Embedded floors	0	0	57,383	57,383	13,000
Currency derivatives					
OTC swaps	3,660	0	0	3,660	31,000

The fair values of the derivatives as of September 30, 2015 were as follows:

	Fair values			
	Positive		Negative	
(€'000)	2015	2014	2015	2014
Interest-rate derivatives				
OTC interest-rate swaps	2	0	-230	-357
Embedded floors	1,628	371	0	0
Currency derivatives				
OTC swaps	6	109	-59	-29

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

Siemens Bank recognized provisions for onerous contracts for interest swap transactions OTV, amounting to €225 thousand (previous year: €199 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 2016 fiscal year as a result of these service relationships:

(€'000)	2016
To affiliated companies	**17,995**
To third parties	**1,245**
	19,240

22 Employees

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

Employees	2015	2014
Siemens Bank GmbH	**184.4**	**178.9**
Munich branch (and Erlangen)	**151.1**	**146.7**
Employment contracts	156.2	151.8
of which part-time	17.0	15.0
London branch	**33.3**	**31.9**
Employment contracts	33.4	32.2
of which part-time	0.2	1.0

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 2015 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 2015 fiscal year.

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

» Chief Executive Officer of Siemens Financial Services GmbH, Munich

» Member of the supervisory board of RISICOM Rückversicherung AG, Grünwald

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

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

Munich, December 18, 2015
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, 2014, to September 30, 2015. 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 generally accepted German 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 12, 2016

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Loetscher	Adam
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]


01010100100101100011101011
01010100100101011011
001001011011
1011011

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

Annex to the annual financial statements of Siemens Bank GmbH, Munich, for the fiscal year from October 01, 2014 to September 30, 2015

Siemens Bank maintained the following branches in member states of the European Union as of September 30, 2015:

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

» United Kingdom: Siemens Bank GmbH, London Branch, 13/14 Appold Street, London, EC2A 2NB

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

	Germany		United Kingdom	
(* €'000)	2015	2014	2015	2014
Business type	Lending and guarantee business		Lending and guarantee business	
	Deposit business		Fee business	
	Fee business			
Figures				
Sales revenue *	86,654	72,974	49,660	38,807
Profit before tax *	42,059	27,062	23,636	22,856
Taxes on profit *	-494	-242	-4,711	-4,275
Government assistance received *	0	0	0	0
Number of employees on payroll	154.9	147.3	35.0	33.7

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

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

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

This brochure contains only general, non-binding information. Its contents are based on information available at the time of publication and can change at any time without prior notice. The contents of this brochure in no way represent an offer to conclude a contract.

All products and solutions offered in this brochure are subject to the legal requirements of the respective country.

Publisher:
Siemens Bank GmbH
80200 Munich
Germany

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

Order-No. L1- Z 1019
Printed in Germany
BR 0216

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.

siemens.com/finance