SIEMENS

Siemens Bank GmbH, Munich

Annual Report

for the fiscal year ended
September 30, 2012

Financial Services

Editorial

Roland Chalons-Browne
Managing Director (CEO)

Dr. Ingeborg Hampl
Managing Director (CRO)

Dr. Peter Rathgeb
Managing Director (CFO)

Dear Reader,

On the occasion of the 2nd edition of the Siemens Bank Annual Report, we are pleased to report that our banking license has proved to be of critical usefulness as part of Siemens Financial Services' ability to support its customers' needs in what continues to be a challenging economic environment.

The needs of customers for flexible, innovative and tailored project and corporate finance solutions have continued to grow over the last year as some sources of funding have become less available as a result of tightening financial regulation across the world. Siemens Bank has expanded the range of Siemens Financial Services' product offerings, adding project finance, corporate loans, guarantees and other aspects of debt financing in order to make important investments in the private and public sector possible. We are active from both our headquarters in Germany as well as our branch in London, working together with a wide range of bank partners, particularly in the area of project finance.

We continue mainly to support the growth of Siemens' four key operating sectors – Energy, Healthcare, Industry and Infrastructure & Cities. In this way, Siemens Bank acts as a key enabler for financing Siemens technology as well as expanding and enhancing our existing customer relationships. A win-win for clients and company alike.

We are now participating in a wide range of international financing consortia, most of which focus on larger infrastructure investments. In these syndicated financings we can act and support Siemens projects on a global basis, and we have already closed transactions in many of Siemens' key growth markets. In the current volatile climate, the stability and strength of Siemens Bank is a key factor in creating the optimum financial solutions for our customers, and so it is significant that in 2012 Siemens Bank GmbH was evaluated for the first time by Moody's Investors Services and rated A1/P-1.

The outlook for the next few years indicates a growing demand for project finance. Banking solutions are playing a key role in the evolution of financial value creation across the main Siemens Sectors, helping clients realize broader competitive visions, and shaping new models of corporate and project performance in both the private and public sectors.

Siemens Bank GmbH
Managing Board

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

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Management report

Annual financial statements

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

Management report

of Siemens Bank GmbH, Munich,
for the period October 1, 2011, to September 30, 2012

Management report

**of Siemens Bank GmbH, Munich,
for the period October 1, 2011, to September 30, 2012**

1 Business performance overview

1.1 Business activities of Siemens Bank GmbH

Siemens Bank GmbH, Munich, (hereinafter Siemens Bank or Bank) was established during the 2010 fiscal year and commenced banking operations on December 21, 2010. Siemens AG, Berlin and Munich, (hereinafter Siemens AG) established Siemens Bank with itself as the sole shareholder in order to broaden the range of sales-financing products in its Cross-Sector Financial Services business, increase flexibility in Group finance and optimize its risk management.

There continue to be three pillars to the Siemens Bank business model, as was the case in the 2011 fiscal year:

- 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.
  In the 2012 fiscal year, Siemens Bank restructured its lending and guarantee business in line with Siemens AG's Sector organization: Project & Structured Finance Energy, Project & Structured Finance Infrastructure & Cities and Industry, and Project & Structured Finance Healthcare.
  Siemens Bank intends to use this structure to develop new sales opportunities by exploiting the sales and marketing channels in Siemens AG.
- Deposit and treasury business: The deposit business focuses on the receipt and investment of overnight money and time deposits from companies in the Siemens Group and selected third-party institutions. The treasury business encompasses both Group financing activities and asset liability management. Asset liability management ensures that the credit business is funded by equity and deposits.
- Fee business: Key resources for managing financial risk and processing financial transactions in the Siemens Group are brought together within Siemens Bank. These resources not only support the company's own banking operations, they are also offered to Siemens AG, its subsidiaries, and selected third parties.

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

1.2 Economic environment

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

In the 2012 fiscal year, Siemens Bank faced a challenging economic environment, dominated by two key factors: First, the persistent sovereign debt crisis in the southern peripheral countries of the euro zone and the resulting strain on the European economy, and second, a global economic slowdown, which even affected emerging markets.

According to data from the German Federal Ministry of Trade and Commerce, the seasonally adjusted and inflation-adjusted figure for euro zone gross domestic product fell 0.2% during the first two quarters of the 2012 calendar year compared with the equivalent period in 2011. This key indicator shows that the euro zone is in a slight recession phase overall. This has largely been caused by the sovereign debt crisis in the southern peripheral countries of the euro zone and the associated budget consolidation and austerity measures implemented by euro zone governments, which – at least in the short term – have had the effect of dampening economic growth and even reinforcing a trend toward recession. However, these trends have not been uniform across all the countries of the euro zone. For example, gross domestic product in Germany grew by 0.3% compared with the equivalent period in 2011.

A slight trend toward recession was also evident outside the euro zone in the year under review: For example, gross domestic product in the United Kingdom in the first two quarters of the calendar year contracted by 0.4% compared with the same period in 2011 as the British economy also continued to suffer significantly from the impact of the financial crisis. Furthermore, the pace of growth in the global economy has surprisingly lost much of its momentum over the last few months. Besides the problems in the euro zone, a faltering economic recovery in the United States and weaker growth in emerging markets have also been contributing factors.

These trends are also negatively impacting capital investment and financing demand in the public and private sector, at least in the short term. Nevertheless, Siemens Bank is noticing 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 are subject to longer-term planning cycles. This demand is also being helped by the fact that competitors are scaling back their lending portfolios or, in some cases, taking a more cautious approach to assuming new credit risk.

At the same time, however, a slight easing began emerging on the interbank market toward the end of the year under review. In July 2012, the European Central Bank (ECB) announced that, if necessary, it would be prepared to intervene without limitation in the financial markets to aid the crisis-hit countries in the euro zone. In addition, the ECB cut its overnight deposit rate to 0%. In subsequent months, demand from banks for funding through the ECB diminished appreciably. At the same time, banks in the crisis-hit countries of the euro zone were also able to obtain funding again on the interbank market.

1.3 Regulatory environment

Following the financial crisis, the largest industrialized nations and emerging economies agreed on a significant number of reforms to increase the stability of the financial system. These reforms emerged as part of the Basel III framework and from decisions made at the G20 summit held in Cannes in November 2011. As a result of these reforms, numerous European and national regulatory requirements are to be redrafted and tightened up with the objective of ensuring that risks are covered by greater capital requirements, the banking industry is supported by greater liquidity, and the overall system is also much more resilient in the event of a crisis.

The 2012 fiscal year saw intense activity by legislators at both the European and national levels to implement the agreed-upon reforms. However, it has become repeatedly apparent that it is going to be difficult to find an international consensus and implement uniform regulation of the banking industry at an international level despite the general agreement already reached in principle. The efforts to combat the European sovereign debt crisis also mean that a continuous stream of new ideas is being fed into the discussions. These ideas include, for example, a pan-European banking supervisory authority under the auspices of the ECB. It comes as little wonder then that it looks like implementation of reforms in national and international law (originally planned for the start of 2013) will be postponed. The latest statements issued by the European Banking Authority (EBA) have also hinted that this will be the case. Even the German government will, as a result, only bring into effect a small number of regulatory changes at the start of 2013.

Nevertheless, these reforms will have a far-reaching impact on not only the requirements for reporting to regulatory authorities but also on banking industry business models and therefore on the banking landscape as a whole as well. For example, banks can be expected to take a more restrictive and selective approach to assuming new risk or to make efforts to reduce their existing risk positions. To this extent, the looming delay in implementation of the reforms will therefore lead to an increase in uncertainty surrounding the regulatory environment. This uncertainty will also affect the banking industry's response to demand for financing from the real economy. On the other hand, this situation also presents business opportunities for banks that are still developing their portfolios that focus on specific markets.

1.4 Business performance

Despite this tough economic and regulatory environment characterized by a number of unpredictable factors and uncertainties, Siemens Bank can look back on a very successful 2012 fiscal year, which exceeded management expectations in some regards. Particular features of the year under review were the substantial expansion in business volume and the significant increase in profitability.

In addition, Siemens Bank opened a branch in London (United Kingdom) on April 1, 2012, to enable it to operate its lending and guarantee business in this key financial center (see 3. Other information).

Another extremely important factor in Siemens Bank's business performance was the rating issued to the Bank in August 2012 by Moody's credit rating agency. Moody's assigned Siemens Bank a long-term rating of A1 and a short-term rating of P1.

Net assets

In the 2012 fiscal year, Siemens Bank focused on the significant expansion of business activities in its **core activity lending and guarantee business**. Since the start of banking operations in December 2010, there has been a substantial increase in the loan book volume (excluding Group financing).

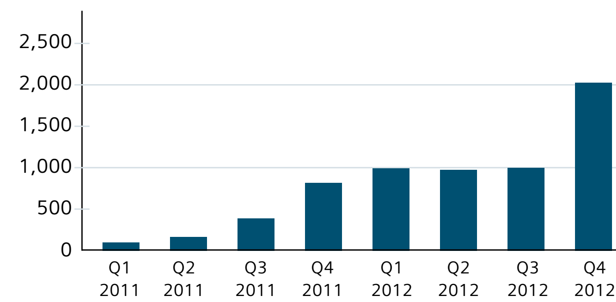


Figure 1: Growth in loans and advances to customers excluding Group financing (€ million)

A noticeable feature in this regard is the considerable boost to growth at the end of each fiscal year. This is the point when a range of deals acquired during the year (such as project finance) is recognized on the balance sheet for the first time. Loan book growth would have been greater in the 2012 fiscal year if customers had not made early terminations and repayments under loan agreements during the course of the year. The significant growth in this area of business is also reflected in the sharp increase from €124 million to €710 million in irrevocable lending commitments. The loan book balance as of September 30, 2012, was also boosted by the acquisition of a credit portfolio from Siemens Financial Services Ltd., Stoke Poges (United Kingdom), valued at €581 million. With the acquisition of this portfolio, the cross-sector Financial Services business aims to consolidate its European and Asian lending activities within Siemens Bank.

As of the end of the 2012 fiscal year, the main focus of this credit portfolio was on activities in Energy (PSF-E) and Infrastructure & Cities and Industry (PSF-IC&I). The portfolio in the area of Healthcare (PSF-H) is still being developed and therefore remains of minor significance within Siemens Bank.

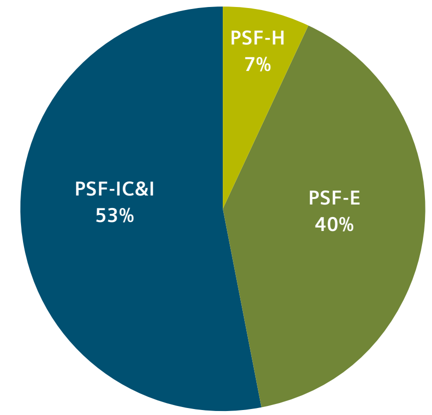


Figure 2: Breakdown of loans and advances to customers (excluding Group financing) by portfolio as of September 30, 2012

Although the Bank focuses on a range of financing solutions for customers of Siemens AG and its subsidiaries, only a small proportion of the business involves direct financing of Siemens products. The vast majority of financing agreements have been signed with existing customers of Siemens AG and its subsidiaries, thereby indirectly supporting the activities of the Siemens Group. Nevertheless, Siemens Bank also enters into financing agreements with Siemens' target customers, in potential markets for Siemens, and even in situations where there is no Siemens connection at all as long as there are attractive returns and opportunities in the lending market concerned.

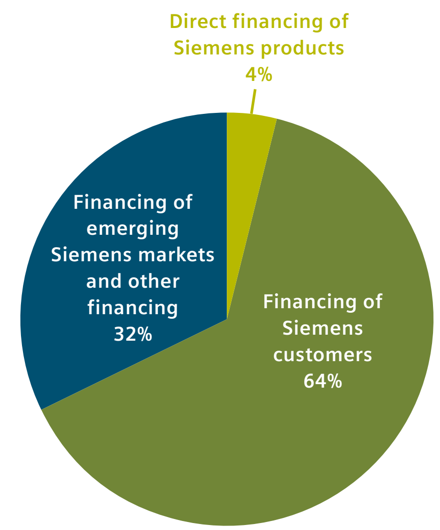


Figure 3: Siemens connection within the credit portfolio (excluding Group financing) as of September 30, 2012

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

The **Group financing** portfolio, which forms an integral part of the deposit and treasury business, grew from €83 million to €194 million in the year under review. 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 have to bear any credit risk in association with this business. Compared with the portfolios in the lending and guarantee business, this credit portfolio is of minor significance within the business of Siemens Bank as a whole.

Changes in **loans and advances to banks and credit balances with central banks** depend to a large extent on the changes in volume in the deposit business. In the fourth quarter of the 2011 fiscal year, a sharp rise in the volume of deposits made by affiliated companies, particularly by the shareholder, occurred for the first time. The very high level of deposits persisted although there were fluctuations during the course of the year. Siemens Bank invests a very high proportion of these deposits in other banks – including Deutsche Bundesbank, the German central bank – with the specific objective of achieving both positive returns and the highest possible level of security.

Financial position

The business activities of Siemens Bank are largely funded by deposits and equity. The 2012 fiscal year saw a further expansion in the deposits business. All Siemens Bank's deposits in the 2011 fiscal year had still been derived from Siemens AG or its subsidiaries; but during the year under review, the Bank also succeeded in attracting selected third parties as deposit customers. Siemens Bank does not, however, accept retail banking deposits. In addition, a small proportion of the business volume was funded through central banks, facilitating further diversification of funding sources.

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

The key features of the liquidity position at Siemens Bank are a high volume of short-term assets and an excess of short-term assets over short-term liabilities. Siemens Bank also has funding options available through 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 bonds or promissory note loans.

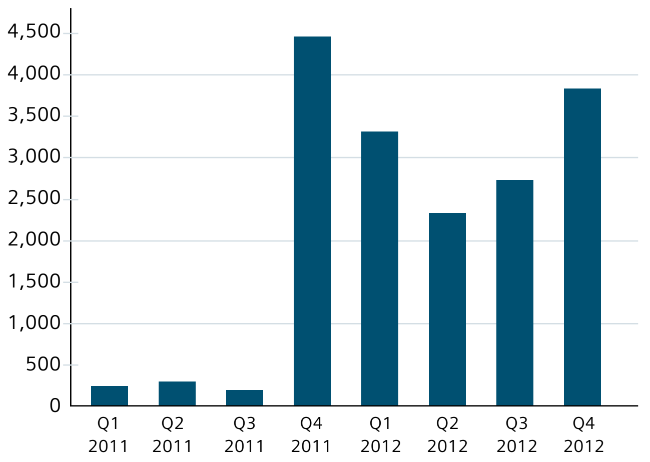


Figure 4: Growth in loans and advances to banks and credit balances with central banks (€ million)

Results of operations

Whereas the results of operations in the 2011 fiscal year were still highly influenced by the effects of commencing banking operations, a key feature of the 2012 fiscal year was a significant improvement in profitability. In the year under review, Siemens Bank managed to substantially increase its net operating income.

(€ million)	2012	2011
Net interest income	31.3	7.3
Net fee and commission income	16.2	13.7
General administration expenses	-28.9	-19.7
Other income and expenses, net	-0.5	0.3
Net operating income before allowances for losses on loans and advances	18.1	1.6
Allowances for losses on loans and advances	-5.7	-1.1
Net operating income	12.4	0.5

Figure 5: Components of Siemens Bank income

Net interest income at Siemens Bank arises from the spread between interest income on loans and investments on one side and funding-related interest expense on the other. The change in net interest income reflects the expansion of the Siemens Bank portfolio over time and particularly the significant increase in volume at the end of the fiscal year. Although there is a significant increase in net interest income, a time delay between the increase in the volume of the portfolio and the increase in net interest income itself does occur. In addition, most of the liquidity derived from deposits is invested on a short-term basis in money markets with low interest rate spreads.

Given the substantial expansion in the lending and guarantee business, the importance of **net fee and commission income** to the results of operations at Siemens Bank has declined. Siemens Bank earns fee and commission income primarily by providing risk management and processing services for Siemens AG and its subsidiaries. The services were provided over the course of the entire fiscal year. The costs incurred in providing the services are reported under general administration expenses.

Approximately 61% of **general administration expenses** at Siemens Bank are attributable to personnel expenses (2011: 60%). Siemens Bank employees are responsible for carrying out the Bank's own banking operations and also for providing risk management and processing services. The other administrative expenses are largely accounted for by the purchase of services from Siemens AG and its subsidiaries as well as from third parties. This purchase of services also includes the purchase of all IT systems required by Siemens Bank. The significant increase in the general administration expenses in the 2012 fiscal year was, in particular, attributable to the expansion of activities in the lending and deposits business as well as to the costs associated with opening the London branch.

The year-on-year rise in **allowances for losses on loans and advances** was attributable largely to the expansion in the lending and guarantee business, which – in contrast to net interest income – has a direct impact on allowances for losses on loans and advances. Given the sound credit quality of the Siemens Bank lending portfolio, the Bank continued to report just a modest level of **allowances for losses on loans and advances** in 2012.

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

As in the 2011 fiscal year, the net operating income before tax reported here represents Siemens Bank's key **financial performance indicator**. Again, as in the 2011 fiscal year, other indicators such as return on equity after taxes (ROE) and economic value added (EVA) were still of less importance in 2012 because of the special circumstances relating to the development of banking operations; however, these indicators were factored into the pricing of lending transactions.

2 Risk report

2.1 Risk strategy

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

2.1.1 Objective

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

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

Siemens Bank follows a clearly defined process for developing its risk strategy. The risk strategy is updated at regular intervals (or if triggered by a particular requirement) based on the business strategy. The basis for the risk strategy is a detailed analysis of risk factors within Siemens Bank using a risk inventory. The risk inventory defines and analyzes the principal types of risk and specifies how these risk types are to be modeled. The risk inventory is then used to construct the risk strategy objectives and action plans, the overall 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 German Solvency Regulation (SolvV), the German Liquidity Regulation (LiqV), and the German Minimum Requirements for Risk Management at Banks (MaRisk). In April 2012, the German Federal Financial Supervisory Authority (BaFin) published a consultation version of the fourth MaRisk Amendment. This version builds on the third MaRisk Amendment and contains, in particular, higher requirements for risk capital adequacy, the risk strategy process, risk controlling, and the compliance function as well as for liquidity risk.

Over the past fiscal year, Siemens Bank had already begun applying the requirements of the fourth MaRisk Amendment within its risk strategy and the resulting implementation of its risk management system. Parts of this amendment were already fully implemented in fiscal year 2012.

2.2 Risk management and organization

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

2.2.1 Organizational structure

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

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

Segregation of functions

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

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

Committees

The Siemens Bank Risk Committee is the central committee responsible for implementing integrated risk-return management and risk management within the meaning of section 25a (1a) of the German Banking Act (KWG). In particular, the Risk Committee supports the Management Board to develop and adopt the risk strategy as well as determine the capital adequacy concept. The Risk Committee is responsible for the guidelines on credit portfolio management in that it specifies appropriate action and sets out the requirements for managing operational risk. In particular, the Risk Committee is responsible for managing and monitoring the credit portfolio. Authority in relation to credit decisions on significant loan exposures is vested in the Credit Committee in accordance with the authority rules and regulations. The committee is responsible for exercising this authority in accordance with these rules and regulations and with due consideration of the Siemens Bank risk strategy. The Asset Liability Management Committee (ALM Committee) is responsible for managing and limiting market and liquidity risk. Ultimate decision-making authority in all issues related to asset liability management, and therefore also related to the management of market and liquidity risk, lies with the Asset Liability Management Committee. The operational management of market and liquidity risk is carried out by the Treasury department at Siemens Bank. This function forms part of the front office in the organizational structure. The Asset Liability Management Committee is also responsible for specifying actions and requirements related to capital and liquidity management.

Risk monitoring

The function Finance, Risk Controlling, and Operations within the CFO area has been assigned responsibility for risk monitoring. Specifically, the Credit Risk Controlling department is responsible for monitoring credit risk, the Market Risk Controlling department is responsible for monitoring market and liquidity risks, and the Integrated Risk Controlling and Organization department is responsible for questions regarding integrated risk controlling and operational risk. The head of Finance, Risk Controlling, and Operations is, through membership on the Risk Committee, the Asset Liability Management Committee, and the Credit Committee, as well as through participation in the meetings of the Management Board, involved in all aspects of all risk-oriented decision-making processes. Finance, Risk Controlling, and Operations supports and advises the directors of the Bank 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 forming the risk capital adequacy concept. Based on the risk strategy and the risk capital adequacy concept, Finance, Risk Controlling, and Operations supports the Management Board with implementing an effective and efficient limit structure and with general limits for risks. The key responsibilities of the departments that comprise Risk Controlling include identifying risks that are relevant to Siemens Bank (operational risks are identified in consultation with the respective department managers, who identify and deliver the relevant information about their departments to Risk Controlling), daily and regular measuring and assessing risks, monitoring the utilization of limits, including escalating limit breaches as well as reporting to the Management Board, and preparing the overall risk profile. In addition, Risk Controlling is assigned the authority, in cooperation with the CFO, to decide on the models and methods used in these controlling tasks, including their 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 material 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 named an internal audit officer who reports directly to the Management Board and is responsible for ensuring that the internal audit function correctly fulfills its responsibilities. 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 is outsourced to the internal audit function of Siemens AG. Working with the internal audit officer, the results of the audits are summarized in an audit report and then presented to the Management Board.

A further element of the internal control system is the compliance function of Siemens Bank. The compliance function consists of a central position that is supplemented by other units from Risk Controlling, Regulatory Reporting, and the Legal department. This central compliance function, which includes anti-money laundering and fraud prevention, reports directly to the Management Board of Siemens Bank and has the authority to issue binding instructions regarding compliance-specific issues. The function assesses compliance with the internal regulations relating to anti-money laundering and other prosecutable actions as well as further compliance-relevant, company-specific provisions, monitors compliance with these regulations and provisions, and supports and advises the Management Board and the business units regarding compliance with such legal provisions and other requirements. 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. Without prejudice to the superordinate role of the compliance function, the managing directors and the business units remain fully responsible for compliance with all legal requirements and other regulations. The compliance function reports to the Management Board on a quarterly basis as part of the risk capital adequacy report, noting its activities and, when relevant, any identified deficiencies and measures implemented for rectifying those deficiencies.

Risk reporting

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

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

The overall risk report is complemented by regular, standardized reports on counterparty default risk, market risk, liquidity risk, and operational risk.

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

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

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

2.2.2 Internal control system for accounting processes

Objective

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

Responsibilities

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

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

Procedures

The procedures and the internal control system for accounting processes are fully documented in process descriptions and work instructions. Accounting policies are described in the closing guidelines for Siemens Bank. Generally accepted accounting policies are applied when preparing the annual financial statements and management report. The appropriateness of these policies is regularly reviewed.

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

Further development and quality assurance

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

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

2.2.3 Integrated risk-return management and capital adequacy

Integrated risk-return management

The management of internal and regulatory capital, the management of liquidity risk, monthly performance controlling, and the management of costs arising in connection with internal and regulatory capital requirements form an integral part of integrated risk-return management at Siemens Bank. The management of internal capital is based on an economic capital adequacy approach, in which economic capital is the key risk variable.

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

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

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

Capital adequacy

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

Siemens Bank applies the "gone concern" method (protection for creditors) in its internal management and limitation of risk. The gone concern method is based on a comprehensive risk approach in combination with a high confidence level, the primary objective of which is to provide effective protection for creditors. The confidence level is in this case based on Siemens Bank's current target rating of A/A-. This target rating means the target probability of surviving is 99.95% with a risk horizon of one year. Despite using the gone concern method, Siemens Bank naturally follows the goal of remaining a going concern. For this calculation, which is done once a year, the risk horizon and confidence level is one year and 95%, respectively.

Capital adequacy is measured by comparing the economic capital requirement derived from the main types of risk with the current risk-taking potential. Using the gone concern method, it is generally possible to use the net asset value of the Bank in addition to the regulatory risk capital because the gone concern method is based on a comprehensive risk approach. As of September 30, 2012, the risk-taking potential was made up of 100% Tier 1 capital. The total Tier 1 capital of Siemens Bank was increased in fiscal year 2012 to €500 million.

As of September 30, 2012, the risk-taking potential consisted of the following:

in € million	2012	2011
Tier 1 captial	500.0	250.0
Loss carryover	-	-0.1
Risk-taking potential	500.0	249.9

Figure 6: Composition of the 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 an analysis of risk factors and a regular risk inventory. The risk inventory includes a comprehensive analysis of the risk factors in the respective business segments as well as a review of the related methods and models that are used. The individual risks are classified according to their materiality on the basis of the risk inventory as well as further appraisals.

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

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

The allocation of the risk-taking potential as of September 30, 2012, was as follows:

in € million	2012	2011
Available risk-taking potential	500.0	249.9
Buffer for minor risk	15.0	12.5
Buffer for stress tests	100.0	49.9
Free risk-taking potential	385.0	187.5
Risk capital for operational risk	5.0	5.0
Allocatable risk-taking potential	380.0	182.5
Risk capital for counterparty default risk	350.0	180.5
Risk capital for market risk	10.0	2.0
Risk capital for refinancing risk	20.0	-

Figure 7: Allocation of the available risk-taking potential

To quantify the internal capital requirement, Siemens Bank applies value-at-risk approaches with a confidence level of 99.95% and a risk horizon of one year. An exception is operational risk, which is quantified using the basic indicator approach in accordance with SolvV.

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

Other risk types currently classified by the Bank as non-material – such as strategic risk, funding risk, model risk, and verity risk – are together covered by an overall safety buffer.

Stress testing

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

Risk capital usage including buffers as of September 30, 2012, was as follows:

in € million	2012		2011	
	Risk-taking potential	Risk capital usage	Risk - taking potential	Risk capital usage
Risk capital for operational risk	5.0	5.0	5.0	5.0
Risk capital for counter-party default risk	350.0	102.7	180.5	54.4
Risk capital for market risk	10.0	2.8	2.0	0.8
Risk capital for refinancing risk	20.0	5.8	-	-
Normal case	385.0	116.3	187.5	60.2
Buffer for minor risk	15.0	15.0	12.5	12.5
Buffer for stress tests	100.0	56.8	49.9	24.3
Stress case overall	500.0	188.1	249.9	97.0

Figure 8: Risk capital usage as of September 30, 2012

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

The most significant risk is credit risk, which is also the main driver behind the utilization of the stress buffer. This reflects Siemens Bank's business and risk strategies.

Due to the consistently increasing business volume, utilization of the risk-taking potential throughout fiscal year 2012 in both the stress case and the normal case was at or below the level as of September 30, 2012. For fiscal year 2013, Siemens Bank is forecasting that capital adequacy will be assured at all times for both the normal case and in consideration of the stress scenarios.

Regulatory capital adequacy

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

As of September 30, 2012, the composition of regulatory capital at Siemens Bank was as follows:

in € million	2012	2011
Paid in capital	5.0	5.0
Capital reserves and other eligible reserves	495.0	244.9
Total Tier 1 capital in accordance with section 10 (2a) KWG	500.0	249.9
Total Tier 2 capital before capital deduction in accordance with section 10 (2b) KWG	-	-
Deductions from Tier 2 capital in accordance with section 10 (6) and (6a) KWG	-	-
Total Tier 2 capital in accordance with section 10 (2a) KWG	-	-
Total available capital (adjusted) in accordance with Section 10 (1d) KWG	500.0	249.9

Figure 9: The composition of regulatory capital as of September 30, 2012

For the purposes of determining capital adequacy, regulatory capital is the same as risk-taking potential.

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

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

in € million	2012	2011
1. Counterparty default risk		
Counterparty default risk, standardized approach		
Central Governments	3.2	3.2
Institutions	5.0	5.8
Corporates	171.2	68.8
Other	1.7	0.5
Sum of counterparty default risks	181.1	78.3
2. Market risk		
Standardized Approach	3.3	0.2
- thereof currency risk	3.3	0.2
Sum market risk	3.3	0.2
3. Operational risk		
Basis Indicator Approach	4.7	5.0
Sum operational risk	4.7	5.0
Total capital requirements	189.1	83.5

Figure 10: Regulatory capital requirements as of September 30, 2012

Under regulatory requirements, Siemens Bank must ensure a total capital ratio of 12% (as defined by SolvV) for the first three years of its business activities. From the 2013/2014 fiscal year onward, it will have to ensure at least the standard total capital ratio, which is currently 8%. The total capital ratio is the ratio of Siemens Bank's regulatory capital to the total amount from risk-weighted assets. As of September 30, 2012, the total capital ratio for Siemens Bank was 21.15% (previous year: 23.96%). As Siemens Bank's equity comprises solely Tier 1 capital components, the total capital ratio is the same as the Tier 1 capital ratio. This ratio is therefore significantly higher than the total capital ratio of 12% specified in regulatory requirements.

The difference between the regulatory capital requirement of €189.1 million (previous year: €83.5 million) and the economic risk capital requirement in the normal scenario of €116.3 million (previous year: €60.2 million) respectively of €188.1 million (previous year: €97.0 million) in the stress scenario is the result of Siemens Bank using its own risk models in the calculation of the economic risk capital requirement.

2.3 Counterparty default risk

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

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

Credit risk

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

Counterparty risk

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

Issuer risk

Issuer risk is the risk of deterioration in the credit rating of an issuer or the risk that an issuer will default, either partially or in full. Siemens Bank does currently not hold issuer risk positions of any kind.

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. Rating procedures are based on statistically validated models and are optimized on an ongoing basis. Regular backtesting forms the core of this optimization process in order to ensure that the Bank achieves the best possible level of forecast quality and discriminatory power within its rating procedures.

Siemens Bank has defined 10 rating classes to enable it to achieve a meaningful differentiation between credit ratings. There are up to three further subclasses within each rating class (e.g., 3+, 3, 3-). This system consists of a total of 19 different credit ratings overall. The rating categories can be reconciled with external credit ratings using a conversion table. If credit ratings are available from an external provider in any particular instance, these external ratings could be used as the input for a credit rating procedure. All external credit ratings used by the Bank in its risk classification procedures are obtained exclusively from Standard & Poor's, Fitch or Moody's. Even if an external credit rating is used, Siemens Bank still carries out a credit rating analysis using its own knowledge and information. Credit rating classes 1 to 7 are used for non-encumbered customers.

If a borrower is classified with a credit rating of 8+ or worse, the borrower concerned is transferred to intensified loan management. A borrower may in any case be transferred to intensified loan management without a downgrade to a rating of 8+ or worse if other criteria for intensified loan management are met – e.g., a request by the customer for loan restructuring or there is a high probability of imminent default. If a borrower is classified with a credit rating of 9 or worse, the borrower concerned is transferred to the workout unit. Rating category 9 covers all borrowers who have been subject to loan restructuring; category 10 comprises all borrowers already in default. If a borrower has payment obligations that are overdue by more than 90 days, the borrower concerned is generally classified in category 10.

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

Rating procedures are optimized continuously and are regularly subject to backtesting. However, the Bank does not reassess credit ratings or revise its rating procedures as a result of general short-term economic factors (through-the-cycle credit ratings). This is particularly important given the portfolio strategy of focusing on loan agreements with long maturities because through-the-cycle credit ratings ensure that the Bank makes a long-term assessment of credit quality.

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

2.3.2 Portfolio management and modeling

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

Expected loss

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

Unexpected loss

A credit-value-at-risk approach is used to analyze credit portfolio risk and determine the economic capital requirement. The credit value at risk serves to quantify an unexpected loss and is a key risk variable in portfolio modeling. In this calculation, Siemens Bank uses a risk horizon of one year and a confidence level of 99.95%. The confidence level is derived from Siemens Bank's target rating of A/A-. Credit risk modeling at the portfolio level uses a simulation-based asset-value model. The asset-value model simulates the probability of default of the borrower using the borrower's return on company value. To determine the return on company value, Siemens Bank uses a multifactor model comprising both macroeconomic and borrower-specific factors. Customers with similar economic characteristics are aggregated into risk units in order to calculate the unexpected loss. The stronger the correlation between a risk unit and macroeconomic factors, the greater the fluctuation in this unit's probability of default if there are changes in the macroeconomic factors. The fluctuation in the macroeconomic and the borrower-specific variables, and therefore the probability of default, is simulated using a Monte Carlo approach. A loss distribution for the credit portfolio is generated from the resulting changes in the probability of default. In addition to the correlations of the risk units, another key input variable for the Monte Carlo simulation is the probability of a credit rating migration. To obtain these data, the Bank draws up a table based on historical credit rating migrations. At each stage in the Monte Carlo simulation, the table provides the probability of migration to a better or worse rating category for each risk unit. The simulated loss distribution takes into account both losses from defaults and economic losses already incurred by a risk unit as a result of the deterioration in credit rating. The exposure for a risk unit comprises the loan amount paid out and any weighted amount related to open external credit lines. The credit value at risk and the risk contributions for the risk units are then derived from the loss distribution. In addition to the credit value at risk, the risk contributions from the largest portfolios and segments are also calculated in order to measure concentration risk.

Country risk

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

Backtesting

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

Pricing

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

Early detection of risk

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

Stress testing

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

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

2.3.3 Risk mitigation techniques

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

Types of collateral

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

- The first category comprises assets in the form of financial or other collateral that the Bank can realize in the event of a default, thereby allowing the Bank to limit the potential loss. This category includes, in particular, physical assets in the case of capital investment loans or project finance as well as cash collateral.
- The second category comprises collateral in the form of guarantees furnished by independent third parties, for example export credit insurance.

Collateral management

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

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

2.3.4 Loan loss allowances

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

As of September 30, 2012, Siemens Bank had total recorded individual and general loss allowances of €6.9 million (previous year: €1.1 million).

2.3.5 Analysis of the credit portfolio as of September 30, 2012

The economic capital requirement for counterparty default risk as of September 30, 2012, was €102.7 million. The allocated risk-taking potential for counterparty default risk was €350.0 million. Over the course of the fiscal year, the utilization of the risk-taking potential consistently increased in line with the growth in the overall portfolio. The amount of required capital is largely determined by the credit portfolio volume, borrower credit ratings, and borrower industrial sectors.

The focus of the credit portfolio on corporates is aligned with the business strategy of the Bank. As of September 30, 2012 the credit portfolio had a nominal exposure of €2,299.7 million (previous year: €924.3 million), of which €2,259.7 million (previous year: €884.3 million) was attributable to private-sector borrowers and €40.0 million (previous year: €40.0 million) to public-sector borrowers.

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

A breakdown of the Siemens Bank credit portfolio by credit rating as of September 30, 2012, is shown in the following table:

in € million	2012	2011
Rating	Outstanding	Outstanding
1	0.0	0.0
2+	0.0	0.0
2	0.0	0.0
2-	50.0	50.0
3+	261.8	0.0
3	30.0	0.0
3-	50.0	121.0
4+	82.8	52.6
4-	619.9	160.3
5+	390.0	324.9
5-	256.0	93.6
6+	340.4	112.6
6-	130.1	0.0
7+	11.6	0.0
7-	53.4	0.0
8+	0.0	0.0
8-	0.0	9.3
9	23.7	0.0
10	0.0	0.0
Total	2,299.7	924.3

Figure 11: Credit portfolio by rating

As of September 30, 2012, the investment grade exposure (rating 1 though 5+) totaled €1,484.5 million, and the non-investment grade exposure (rating 5- through 10) totaled €815.2 million. The exposure to credit engagements with a high likelihood of default (rating 9) totaled €23.7 million. As of September 30, 2012, there were no defaults in the credit portfolio.

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

in € million	2012	2011
Germany	353.9	139.3
Euro zone excluding Germany	656.7	404.3
EU excluding euro zone	538.4	134.9
Europe excluding EU	482.8	153.9
Asia	179.4	68.2
Australia/Oceania	73.8	-
Africa	14.6	-
America	0	23.7
Total	2,299.7	924.3

Figure 12: 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 and its associated guidelines. The asset liability management policy is a comprehensive description of procedures, tools, roles, and responsibilities for all persons involved in the process. The policy is reviewed at least once a year to ensure that it is up to date.

2.4.1 Risk management

Liquidity risk (in the sense of risk of insolvency)

Liquidity risk (in the sense of risk of insolvency) is the risk that Siemens Bank will not be able to meet its payment obligations on time or in full. Siemens Bank uses a detailed, multiple-currency liquidity gap profile in euro to manage liquidity risk. In this profile, the balances of all contractually agreed and modeled cash flows are reported on a daily basis and converted into euro. 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. Similar to the multicurrency liquidity gap profile based in euro, individual liquidity gap profiles are generated and analyzed for each material currency based only on the cash flows in the respective currencies.

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

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

Refinancing risk

Refinancing risk is the risk that Siemens Bank will only be able to close gaps in its liquidity gap profile by obtaining funds at increased market interest rates. Each week, the maximum present value loss arising from changes in funding terms and conditions is calculated in the form of liquidity value at risk (LVaR) based on the net cash flows determined in the liquidity gap profile.

Limit structure

Siemens Bank defines its liquidity risk tolerance over a period of 12 months and thereby limits the gaps determined in the liquidity gap profile. Liquidity risk controlling continuously monitors compliance with these limits. If a limit is exceeded, the Asset Liability Management Committee has to be informed without delay and action has to be initiated to restore compliance with the limit.

2.4.2 Modeling

Modeling

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

Liquidity Buffer

For liquidity shortfalls, Siemens Bank holds a buffer consisting of high-quality, liquid assets eligible for use as central bank collateral as well as cash. A core component of this strategy is Siemens Bank's participation in Deutsche Bundesbank's KEV program ("Krediteinreichungsverfahren"), in which the Bank's loans to customers are eligible for submission to Deutsche Bundesbank as collateral. The minimum reserve at the Deutsche Bundesbank is not included in the buffer.

Stress testing

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

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, 2012

The liquidity gap profile comprising deterministic, optional and modeled cash flows shows a single period of negative cumulative cash flows in the two- and three-year time gaps. The short- and middle -term cumulative cash flows up to one year are consistently positive. As of September 30, 2012, the net cash surplus for one day was €230.6 million, for one week €481.8 million, for one month €351.7 million and for three months €279.5 million. The optional and modeled cash flows are included in these numbers. Siemens Bank increased its liquidity buffer over the previous year. As of September 30, 2012, this buffer comprised of assets eligible as collateral with central banks was €210.8 million (previous year: €121.5 million).

Siemens Bank expanded its deposit business during the year and used this under strict limits for refinancing its asset business. Due to the mostly matched funded refinancing of its asset business Siemens Bank had as of September 30, 2012, a liquidity value at risk of €5.8 million (previous year: €0.1 million) with a confidence level of 99.95% and a horizon of one year because of the negative cash flows in the two- and three-year time gaps.

2.5 Market risk

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

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

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

2.5.1 Risk management

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

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

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

2.5.2 Modeling

Risk model

Siemens Bank uses an internal value-at-risk model, based on a variance/covariance approach to measure market risk. Economic capital is determined by calculating the value at risk with a confidence level of 99.95% and a risk horizon of one year. Operational value-at-risk limits are then derived from this calculation. If the operational value-at-risk limits are determined and monitored using a different confidence level or risk horizon, the Bank ensures that there is always a reconciliation to capital adequacy.

Backtesting

The one-day value at risk is backtested in order to ensure the quality of the forecast produced by the value-at-risk model. The change in value in the underlying positions (hypothetical P&L) is compared against the calculated value at risk. If the hypothetical P&L exceeds the calculated value at risk more than five times within a year, Siemens Bank makes adjustments to the modeling. This may involve either a general modification of the model or the introduction of a penalty factor. Penalty factors are based on the requirements in the Internal Measurement Approach as specified in SolvV.

Stress testing

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

2.5.3 Market risk analysis as of September 30, 2012

As of September 30, 2012, the economic capital requirement for market risk was €2.8 million. The allocated risk-taking potential for market risk was €10.0 million. At no time during the fiscal year were the loss limits relating to the treasury function endangered. The utilization of the allocated risk-taking potential did not exceed the allocation at any point during the fiscal year.

2.6 Operational risk

Operational risk is defined as the risk of losses resulting from inappropriate or failed processes or technical systems or inappropriate behavior or failures on the part of individuals or resulting from external events. This definition includes legal and reputational risk.

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

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

2.6.1 Risk classification and management

Siemens Bank conducts an annual self-assessment in which it systematically collects and analyzes data on operational risk. The various risks are then prioritized based on the risk potential determined in the analysis. The Bank then initiates appropriate countermeasures with continuous monitoring in order to mitigate any critical risks that have been identified.

Any losses actually incurred above a defined threshold value are recorded without delay in the Bank's own database of losses and analyzed to establish the cause of the losses. The Risk Committee decides on any action that needs to be initiated and the operational risk manager monitors the implementation of such action.

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

Siemens Bank uses the Basic Indicator Approach as specified in SolvV in order to measure and cover the regulatory capital requirement for operational risk.

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

2.6.2 Risk reporting

Operational risk forms an integral part of the overall risk report and is subject to regular quarterly and annual risk reporting.

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

The total value of operational losses in the past fiscal year was well below €0.1 million.

2.7 Business and strategic risk

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

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

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.

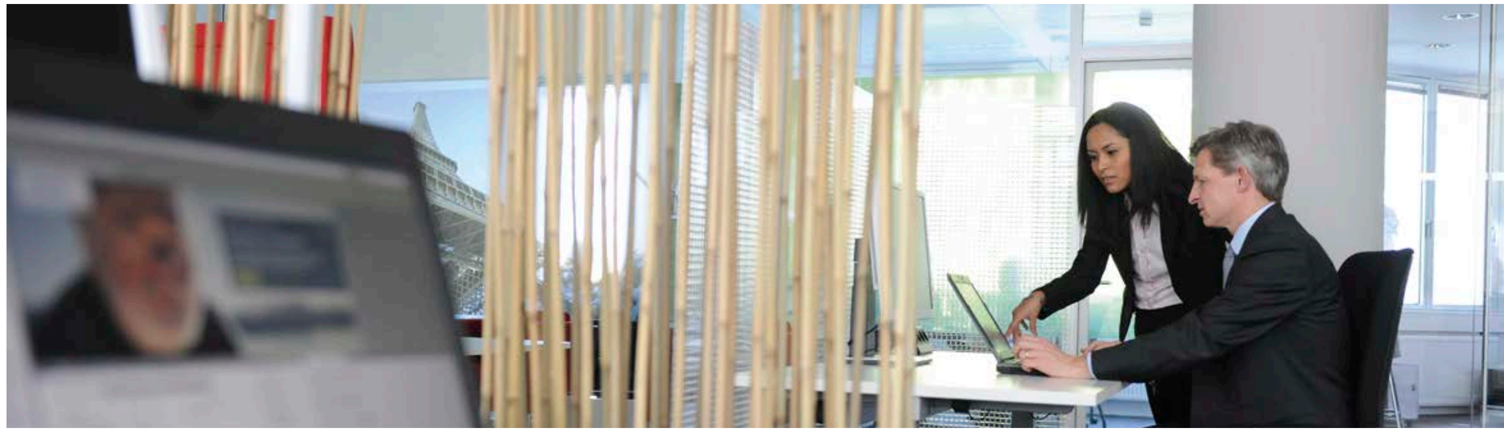
3 Other information

Since April 1, 2012, Siemens Bank has maintained a branch in London, United Kingdom, where it operates its lending and guarantee business. The branch was established under EU passporting rules and involved a transfer of undertakings (protection of employees). Under these arrangements, 24 employees of Siemens Financial Services Ltd., Stoke Poges (United Kingdom), a British company in the cross-sector Financial Services business, were transferred to Siemens Bank. These employees had operated the lending and guarantee business for the transferring company up to March 31, 2012. At the same time, Siemens Bank acquired an extensive credit portfolio from Siemens Financial Services Ltd. By setting up the London branch and thus establishing a presence in this key international financial center, Siemens Bank is pursuing its objective of substantially strengthening its sales channels, especially in the syndicated business. A plan is in place to consolidate the lending activities of the cross-sector Financial Services business in Europe and Asia within Siemens Bank.

As in 2011, Siemens Bank was involved in 2012 in a large number of Group-wide programs and initiatives under the auspices of Siemens AG. These included:

- 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 the 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
- Initiatives to support a work-life balance, including tax-free childcare subsidies and options for childcare that are linked to employment contracts

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



4 Outlook

Trends in the economic environment

The economic forecast published in the fall of 2012 by the Federal Association of German Banks (BDB) predicts that the slowdown in the global economy will initially continue. As far as the next calendar year is concerned, the BDB expects economic growth to vary from region to region. It believes economic growth will slightly accelerate at a global level, with economic recovery in the euro zone largely dependent upon whether the uncertainty caused by the sovereign debt crisis fades by any significant degree. The BDB's forecast states that this global acceleration will have a positive impact on the German economy. However, its forecast for the 2013 calendar year still emphasizes that a great deal of uncertainty caused by the particular situation in the euro zone will continue.

Siemens Bank is also assuming that economic trends will continue to be heavily influenced by the sovereign debt crisis in the euro zone and by a high level of uncertainty. Nevertheless, Siemens Bank is expecting to see the return of a global economic recovery from 2013 onward and predicts that this, in turn, will also have a positive impact on the banking sector.

The Bank therefore believes that the demand for project finance and capital investment loans will continue to hold up, especially in Europe and Asia, with the result that there will still be attractive growth opportunities for Siemens Bank.

Business performance of Siemens Bank in 2013 and 2014

For these reasons, Siemens Bank expects to continue on the path of successful profitable growth in coming fiscal years. In particular, the Bank also intends to benefit from the reorganization of its lending and guarantee business to align it with Siemens AG's Sector organization, from its new presence in London's financial center as well as from the income derived from its current credit portfolio. At the same time however, the Bank will continue to avoid excessive credit risk.

Although the Bank is forecasting a decline in short-term deposits from Siemens AG and its subsidiaries as well as related areas in loans and advances to banks and credit balances with central banks resulting from money market transactions, the Bank believes that the effect on business volume and net interest income will be offset by the impact from very significant growth in loans and advances to customers as part of its lending and guarantee business. Siemens Bank expects its funding in 2013 and 2014 will continue to be provided largely by Siemens AG and its subsidiaries. In addition, given the forecasted sharp increase in net interest income, risk management and processing services will continue to become less important as pillars of the business and components of the Bank's earnings.

Siemens Bank believes that some of these positive developments will be offset by the need to recognize higher allowances for losses on loans and advances compared with the first two fiscal years of the Bank's operations. This increase in allowances is necessary because of economic risk factors. In addition, the further expansion of business activities and growth-driven capital spending by the Bank on infrastructure will lead to a further increase in general administration expenses.

Overall, Siemens Bank expects it can strongly boost its net operating income before tax over the next two fiscal years on the basis of a sharp rise in net interest income.

Annual financial statements

of Siemens Bank GmbH, Munich,
for the fiscal year ended September 30, 2012 (in €)

Income statement (translation of the German original)

Income statement

of Siemens Bank GmbH, Munich, for the fiscal year ended September 30, 2012 (€'000)

		Note	2012	2011
1	**Interest income**	1	**90,090**	**14,317**
	from lending and money market business		90,090	14,317
2	**Interest expense**		**-58,829**	**-7,039**
3	**Fee and commission income**	1, 2	**16,355**	**13,753**
4	**Fee and commission expense**		**-158**	**-13**
5	**Other operating income**	1, 3	**147**	**343**
6	**General administration expenses**		**-28,930**	**-19,655**
	a) Personnel expenses			
	aa) Wages and salaries		-15,467	-10,203
	ab) Social security, post-employment and other employee benefit costs		-2,276	-1,630
	of which in respect of pensions		-1,417	-433
	b) Other administrative expenses		-11,187	-7,822
7	**Amortization and write-downs of intangible fixed assets, depreciation and write-downs of property and equipment**		**-11**	**-7**
8	**Other operating expenses**	3	**-576**	**-65**
9	**Write-downs of receivables and certain securities and additions to provisions in the lending business**		**-5,733**	**-1,124**
10	**Result from ordinary activities**		**12,355**	**510**
11	**Taxes on income**	4	**-17**	**-1**
	of which deferred taxes		0	0
12	**Other taxes not included under item 8**		**-8**	**-1**
13	**Profit transferred under a profit-and-loss transfer agreement**	5	**-12,330**	**-452**
14	**Net income for the year**		**0**	**56**
15	**Loss carried forward from prior year**	5	**0**	**-56**
16	**Distributable profit**		**0**	**0**

Balance sheet (translation of the German original)

Balance sheet

as of September 30, 2012 (€'000) of Siemens Bank GmbH, Munich

	Assets	Note	2012	2011
1	**Cash and cash equivalents**		**2,837,801**	**4,468**
	Credit balances with central banks		2,837,801	4,468
	of which credit balances with Deutsche Bundesbank		2,837,801	4,468
2	**Loans and advances to banks**	6	**1,014,322**	**4,477,935**
	a) Repayable on demand		20,774	12,479
	b) Other loans and advances		993,548	4,465,456
3	**Loans and advances to customers**	7	**2,272,599**	**924,158**
	of which secured by charge over real estate		0	0
	of which loans to public-sector entities		0	0
4	**Property and equipment**	8	**30**	**35**
5	**Other assets**	9	**1,677**	**84**
6	**Prepaid expenses**	10	**897**	**1,297**
	Total assets	17	6,127,326	5,407,977

	Equity and liabilities	Note	2012	2011
1	**Amounts due to banks**	11	**50,609**	**0**
	With agreed maturity or notice period		50,609	0
2	**Amounts due to customers**	12	**5,522,322**	**5,143,493**
	Other liabilities		5,522,322	5,143,493
	a) Repayable on demand		219	865
	b) With agreed maturity or notice period		5,522,103	5,142,628
3	**Other liabilities**	13	**2,847**	**962**
4	**Deferred income**	10	**41,668**	**7,941**
5	**Provisions**	14, 15	**9,880**	**5,581**
	a) Provisions for pensions and similar obligations		4,563	2,839
	b) Other provisions		5,317	2,742
6	**Equity**	16	**500,000**	**250,000**
	a) Subscribed capital		5,000	5,000
	b) Capital reserves		495,000	245,000
	Total equity and liabilities	17	6,127,326	5,407,977
	Other obligations	19	**709,634**	**123,811**
	Under irrevocable lending commitments		709,634	123,811

Notes to the financial statements

of Siemens Bank GmbH, Munich,
for the fiscal year ended September 30, 2012

Notes to the financial statements (translation of the German original)

Establishment of Siemens Bank GmbH

Siemens Bank GmbH, Munich, (hereinafter Siemens Bank or Bank) received a license from the German Federal Financial Supervisory Authority (BaFin) on November 30, 2010, to conduct selected banking transactions. As a result of a resolution passed by the shareholder on December 10, 2010, the company was renamed Siemens Bank GmbH, Munich (formerly: Siemens Finance GmbH, Munich). The change of name was entered in the commercial register on December 17, 2010. Siemens Bank commenced banking operations on December 21, 2010, and immediately notified BaFin accordingly.

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, 2012, have been prepared in accordance with the provisions of the German Commercial Code (HGB), the German Accounting Law Modernization Act (BilMoG), 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).

All amounts are shown in thousands of euros (€'000) in accordance with section 244 of HGB.

Pursuant to section 267 (7) of HGB, any line items on the standard RechKredV forms that are not relevant to Siemens Bank and have therefore remained blank have been omitted and the numbering has been adjusted accordingly to improve readability.

Accounting policies

Loans and advances to banks and customers

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

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

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

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. Low-value assets with an individual net value of up to €150 are written off in full in the year of acquisition. In the case of items of property and equipment with an individual net value of between €150 and €1,000, the aggregate items recognized for tax purposes are also included in the HGB annual financial statements to simplify matters.

Cash and cash equivalents and other assets

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

Liabilities

Liabilities are carried at their settlement amounts as of the balance sheet date. Pursuant to section 11 of RechKredV, interest obligations in connection with amounts due to 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.

Provisions for pensions

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

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

Netting of assets and liabilities, income and expense

Assets whose sole purpose is to satisfy pension obligations or residual partial retirement obligations (and cannot therefore be the subject of a claim by any other creditors) are measured at fair value. Income and expenses associated with these assets are netted with the interest cost in connection with the unwinding of discounts on the corresponding obligations and are reported under general administration expenses, social security, post-employment and other employee benefit costs. In addition, these assets are offset against the corresponding underlying obligation. If this results in a surplus obligation, this obligation is reported under provisions. If the value of assets exceeds the obligations, the amount is reported as an excess of plan assets over pension liabilities.

Provisions for taxes and other provisions

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

Provisions include individual appropriate and adequate provisions for all identifiable risks arising in connection with contingent liabilities 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 over the previous seven fiscal years 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 of the banking book and its net carrying amount. If the net carrying amount exceeded the net present value, there would be a requirement for the recognition of a corresponding provision. As of September 30, 2012, there was no requirement for the recognition of a provision for onerous contracts pursuant to section 340a of HGB in conjunction with section 249 (1) sentence 1 of HGB.

Currency translation

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

Siemens Bank also makes use of the concept of specific coverage for the remeasurement of amounts denominated in a foreign currency. If assets and liabilities denominated in a foreign currency are subject to specific coverage, any associated income or expense arising from currency remeasurement is recognized in the income statement. Non-current assets and liabilities that are not subject to specific coverage are measured in accordance with the HGB imparity principle (whereby unrealized losses are recognized, but unrealized gains are not recognized).

Assets denominated in a 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 a possibility to enter 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 valuation difference from this measurement process is recognized under other liabilities. Any currency remeasurement gain or loss is reported under other operating income or expense (€66 thousand income, prior year: €13 thousand income).

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:

in %	2012	2011
Germany	56	62
Elsewhere	44	38

2 Fee and commission income

Fee and commission income is derived from the following services:

(€'000)	2012	2011
Risk management services for affiliated companies	16,243	13,663
Risk management services for third parties	112	90
Total	16,355	13,753

3 Other operating income and expense

Other operating income for the most part comprises income from the remeasurement (in accordance with HGB) of pension obligations taken over by the Bank as part of the establishment of the London branch to which business of Siemens Financial Services Ltd., Stoke Poges (United Kingdom), was transferred. Other operating income also includes income from currency remeasurement. In 2011, this item mostly comprised income derived from the revaluation (in accordance with HGB) of obligations taken over by the Bank as part of the transfer of business from Siemens Financial Services GmbH, Munich.

Other operating expense largely comprises expenses from the compounding of provisions and in connection with additions to certain provisions. Expenses from the compounding of provisions amount to €305 thousand. In 2011, this item mostly comprised expenses arising from additions to certain provisions.

4 Taxes on income

Siemens Bank forms an integral part of the tax group of Siemens AG, Berlin and Munich (hereinafter Siemens AG), for both income tax and VAT purposes. Taxes on income, therefore, only include current withholding taxes.

Siemens Bank did not need to recognize any deferred tax liabilities as of September 30, 2012. Siemens Bank does not recognize any deferred tax assets.

5 Profit transfer under a profit-and-loss transfer agreement, loss carryforward from the prior year

On October 29 and November 5, 2010, Siemens Bank entered into a profit-and-loss transfer agreement with Siemens AG, the sole shareholder in Siemens Bank. The general meeting approved this agreement with a resolution passed on December 10, 2010. The agreement was entered in the commercial register on April 4, 2011.

Under this profit-and-loss transfer agreement, the entire net income for the year determined in accordance with HGB is transferred to Siemens AG (in 2011 this net income was reduced by a loss carryforward determined in accordance with HGB).

Balance sheet disclosures

6 Loans and advances to banks

(€'000)	2012	2011
Loans and advances to banks with maturities of	**1,014,207**	**4,477,479**
without interest accruals		
up to and including 3 months	1,014,207	4,477,479
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)	2012	2011
Loans and advances to customers with maturities of	**2,280,695**	**919,022**
without interest accruals		
up to and including 3 months	149,448	76,596
more than 3 months and up to 1 year	157,066	136,786
more than 1 year and up to 5 years	1,132,698	476,575
more than 5 years	841,483	229,065

Loans and advances to customers include loans and advances to affiliated companies with a value of €193,818 thousand (September 30, 2011: €83,367 thousand). As in the 2011 fiscal year, there were no loans and advances to the shareholder.

8 Statement of changes in fixed assets

The changes in property and equipment over the 2012 fiscal year are as follows:

(€'000)	Cost				
	Oct. 1, 2011	Additions	Transfers	Disposals	Sept. 30, 2012
Property and equipment	**45**	**6**	**0**	**-8**	**43**
Office furniture and equipment	45	6	0	-8	43

(€'000)	Depreciation and write-downs			Carrying amount	
	cumulative	of which curr. yr.	of which additions	2012	2011
Property and equipment	**-13**	**-11**	**-8**	**30**	**35**
Office furniture and equipment	-13	-11	-8	30	35

The changes in property and equipment in the 2011 fiscal year were as follows:

(€'000)	Cost				
	Oct. 1, 2010	Additions	Transfers	Disposals	Sept. 30, 2011
Property and equipment	**0**	**41**	**4**	**0**	**45**
Office furniture and equipment	0	41	4	0	45

(€'000)	Depreciation and write-downs			Carrying amount	
	cumulative	of which curr. yr.	of which additions	2011	2010
Property and equipment	**-10**	**-7**	**-3**	**35**	**0**
Office furniture and equipment	-10	-7	-3	35	0

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

9 Other assets

Other assets largely comprise receivables from expected cash inflows and receivables arising from the provision of services to third parties and subsidiaries of Siemens AG.

10 Prepaid expenses and deferred income

(€'000)	2012	2011
Prepaid expenses	**897**	**1,297**
Premium on loans and advances	897	1,247
Other prepaid expenses	0	50
Deferred income	**41,668**	**7,941**
Discount on loans and advances	32,494	3,591
Other deferred income	9,174	4,350

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

11 Amounts due to banks

(€'000)	2012	2011
Deposits from banks with maturities of	**50,580**	**0**
without interest accruals		
up to and including 3 months	50,580	0
more than 3 months and up to 1 year	0	0
more than 1 year and up to 5 years	0	0
more than 5 years	0	0

Amounts due to banks are due to Deutsche Bundesbank. The entire amount is secured by loans pledged as collateral with Deutsche Bundesbank under the KEV program ("Krediteinreichungsverfahren").

12 Amounts due to customers

(€'000)	2012	2011
Amounts due to customers with maturities of	**5,519,351**	**5,140,315**
without interest accruals		
up to and including 3 months	3,681,916	4,142,325
more than 3 months and up to 1 year	138,652	613,586
more than 1 year and up to 5 years	1,225,702	281,386
more than 5 years	473,081	103,018

Of the amount due to customers, €5,303,851 thousand (September 30, 2011: the entire amount of this line item) is accounted for by transactions with affiliated companies. Within this total, an amount of €4,453,411 thousand is due to the shareholder (September 30, 2011: €4,256,714 thousand).

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

13 Other liabilities

The breakdown of other liabilities is as follows:

(€'000)	2012	2011
Other liabilities	**2,847**	**962**
Currency translation adjustment	1,772	0
Withholding tax to be paid	438	624
Personnel-related obligations	328	307
Others	309	31

14 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 business as well as for new employees. To fund these occupational pensions, Siemens Bank has covered its obligations partly by assets that are held externally in trust and subject to restricted access.

The majority of current employees at Siemens Bank participate in the Siemens defined contribution plan (BSAV) launched in 2004. BSAV is a pension program covered by assets held in trust. For the most part, the benefits depend on the contributions made to the program 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 program. The salary components deferred under this program 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 €374 thousand as of September 30, 2012 (September 30, 2011: €284 thousand) and a cost value of €359 thousand (September 30, 2011: €302 thousand), are therefore offset against the pension obligations. Income and expenses each in the amount of €90 thousand (September 30, 2011: €62 thousand) were netted.

On behalf of the employees at the London branch, Siemens Bank has also been participating in the pension for Siemens Group employees in the United Kingdom since April 1, 2012. 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 €659 thousand as of September 30, 2012 (September 30, 2011: €0.00 thousand), an amount equivalent to the amount of the pension obligations is offset against the pension obligations.

As of September 30, 2012, the total settlement amount for the pension provisions amounted to €5,490 thousand (September 30, 2011: €3,123 thousand), of which €926 thousand (September 30, 2011: €284 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 5.08% (September 30, 2011: 5.13%) and a pension growth rate of 1.75% per annum (September 30, 2011: 1.75%).

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

15 Other provisions

The changes in other provisions over the 2012 fiscal year are as follows:

(€'000)	Oct. 1, 2011	Transferred	Utilized
Other provisions	**2,742**	**763**	**-2,134**
of which with maturities up to 1 year	2,641	762	-2,134

(€'000)	Reversed	New	Sept. 30, 2012
Other provisions	**-253**	**4,199**	**5,317**
of which with maturities up to 1 year	-252	4,042	5,059

The changes in other provisions in the 2011 fiscal year had been as follows:

(€'000)	Oct. 1, 2010	Transferred	Utilized
Other provisions	**49**	**1,583**	**-1,550**
of which with maturities up to 1 year	49	1,466	-1,510

(€'000)	Reversed	New	Sep. 30, 2011
Other provisions	**-2**	**2,662**	**2,742**
of which with maturities up to 1 year	-2	2,638	2,641

Transfers mainly result from provisions connected with personnel-related accruals that were taken over in the course of transfers of undertakings.

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

(€'000)	2012	2011
Other provisions	**5,317**	**2,742**
Personnel-related provisions	5,124	2,383
Provisions for year-end costs	169	135
Provisions for projects	24	224

16 Equity

The changes in equity over the 2012 fiscal year are as follows:

(€'000)	Oct. 1, 2011	Additions	Loss settlement	Sept. 30, 2012
Equity				
Subscribed capital	5,000	0	0	5,000
Capital reserves	245,000	250,000	0	495,000
Distributable profit	0	0	0	0
	250,000	250,000	0	500,000

Following a resolution passed on December 29, 2011, by Siemens AG as the sole shareholder in Siemens Bank, Siemens AG added €250,000 thousand in cash to the capital reserves of the Bank. The subscribed capital has been fully paid in cash.

The changes in equity over the 2011 fiscal year were as follows:

(€'000)	Oct. 1, 2010	Additions	Loss settlement	Sept. 30, 2011
Equity				
Subscribed capital	5,000	0	0	5,000
Capital reserves	5,100	239,900	0	245,000
Net accumulated loss	-56	0	56	0
	10,044	239,900	56	250,000

17 Assets and liabilities denominated in foreign currency

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

(€'000)	2012	2011
Assets denominated in foreign currency	**1,134,024**	**294,737**
Liabilities denominated in foreign currency	**1,181,350**	**294,229**

Other disclosures

18 Derivative financial instruments

Siemens Bank only enters into derivative financial instruments to cover risks arising in connection with its banking business. As far as possible, these derivatives are accounted for as part of the specific coverage. In the 2011 fiscal year, they had been designated to accounting groups ("Bewertungseinheiten") in accordance with HGB.

	Nominal				
	Residual maturity 2012			Total amount	
(€'000)	≤ 1 year	1 - 5 years	> 5 years	2012	2011
OTC currency derivatives					
FX swaps	145,611	7,099	0	152,710	6,406

	Fair values			
	Positive		Negative	
(€'000)	2012	2011	2012	2011
OTC currency derivatives				
FX swaps	884	152	-1,995	0

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

19 Other obligations

Other obligations comprise solely irrevocable loan commitments to customers. 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 Other financial obligations

Siemens Bank purchases services from affiliated companies and third parties under the terms of outsourcing agreements. The following financial obligations are expected for the 2013 fiscal year as a result of these outsourcing agreements:

(€'000)	2013
To affiliated companies	**12,133**
To third parties	**835**
	12,968

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

21 Employees

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

Employees	2012	2011
Siemens Bank GmbH	**145.7**	**95.1**
Munich branch	**118.4**	**95.1**
Full time	110	89
Part time	12	9
London branch	**27.3**	**0.0**
Full time	27	0
Part time	1	0

The figures for the London branch have been calculated as an average since the branch was opened on April 1, 2012.

22 Members of the Management Board and Supervisory Board

The general meeting has appointed the following members of the Management Board:

- Roland Chalons-Browne, Chief Executive Officer of Siemens Bank and Siemens Financial Services GmbH, Munich
- 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 2012 fiscal year.

The general meeting has set up a Supervisory Board (which was known in German until December 15, 2011, as the "Beirat") with the following members:

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

Dr. Peter Moritz was elected chairman and Hans-Peter Rupprecht deputy chairman of the Supervisory Board. The members of the Supervisory Board did not receive any remuneration for their activities in the 2012 fiscal year.

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

- Member of the Supervisory Board of Risicom Rückversicherung AG, Grünwald
- Non-executive director of Siemens Financial Services Inc., Iselin, New Jersey, United States

In addition to her activities as a member of the Management Board of Siemens Bank, Dr. Ingeborg Hampl was a non-executive director of Siemens Financial Services AB, Stockholm, Sweden, until February 17, 2012.

23 Membership of a corporate group

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

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

Munich, December 12, 2012

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, 2011, to September 30, 2012. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

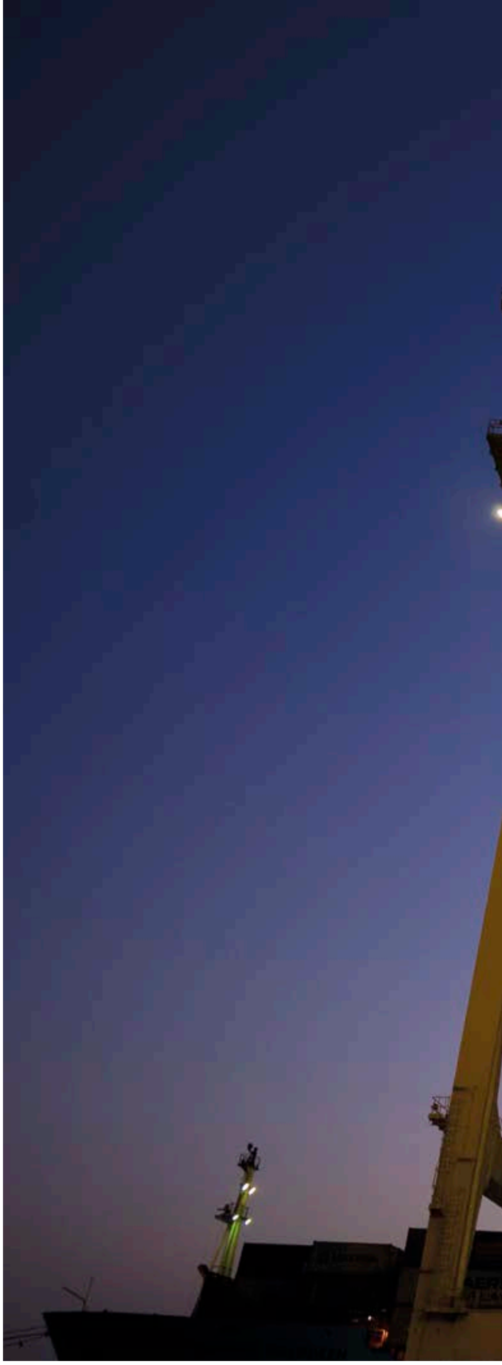
Our audit has not led to any reservations.

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

Munich, January 17, 2013

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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



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

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