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Pricing Guideline

Approved

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Table of Contents

1. INTRODUCTION.. 3
1.1 PURPOSE.. 3
1.2 SCOPE & APPLICABILITY.. 3
2. PRICING TOOLS.. 4
3. PRICING OUTPUT.. 5
4. METHODS.. 6
APPENDIX.. 8

1. Introduction

For intents and purposes of this document, “Pricing” is an evaluation of the theoretical financial performance for a financial instrument offered by Siemens Financial Services inclusive of proven estimations regarding funding costs and credit risk. Pricing is a material key factor in SFS decision on engaging in new transactions as well as divesting assets.

SFS and Siemens Bank Management require a globally consistent approach to pricing in order to effectively evaluate new transactions (independent to organizational/regional/business segmentation/product changes).

SFS Business units require a methodology that is comparable to market standards and flexible enough to support evolving product offerings and transaction structures as well as a pricing infrastructure/tool set that allows for efficient pricing.

Within this Policy the term “Credit Policy” refers to Siemens Bank Credit Policy for PS-EA and SFS Credit Policy for PS-AM.

1.1 Purpose

The purpose of this document is to define:

- The scope of pricings for which this document is applicable
- The points in time for which an approved pricing is required
- The responsibility for specific functions regarding methods and technology
- Specific input requirements for pricing methods

Pricing specific requirements may exist in other policies (e.g. Credit Policy).

In the case where the requirements of this document are more specific or in conflict to the requirements of other Siemens Bank policies (resp. SFS policies for PS-AM), the requirements of this document supersede the requirements of other Siemens Bank resp. SFS policies.

In the case where other SFS policies are more specific, and not in conflict with the requirements of this document, those requirements supersede this document.

The parties defined in this document are ultimately responsible to fulfill the requirements provided herein. The execution of tasks may be delegated as required. The delegation of tasks does not delegate the responsibility to the requirements of this document.

1.2 Scope & Applicability

This document is applicable to “approved pricing runs”. Throughout this document “pricing”, “pricing run”, and “approved pricing run” are synonymous.

Throughout this document “transaction” and “portfolio of transactions” are synonymous. A transaction could be a “deal” Siemens Bank resp. SFS is considering “getting into”, an existing Siemens Bank resp. SFS asset, or the sale of an existing Siemens Bank resp. SFS asset.

The requirements of this document are applicable to all “Approved Pricings”

An approved pricing is a pricing that:

- Complies, at a minimum, to the standards defined in this document
- Is created utilizing approved methods
- Is created utilizing approved tools (i.e. specifically the results of Expected Loss, ROE, and EVA that are presented must be determined by an approved version of the Pricing Application PrApp)

- Is reviewed and approved by a person(s) having the appropriate level of authority as delegated by the Lending Authority (see Credit Policy)
- Is sufficiently documented so that the inputs can be validated as correct, and the pricing (including results) can be fully reproduced.

Pricing runs are routinely generated during many points of the transaction lifecycle (eg: proposal, underwriting, etc.). They are also generated for other different analytical purposes (eg: the evaluation of business concepts, in support of financial planning analysis, in the determination of compensation, etc.). Approved pricing runs as defined by this document are only required for the following scenarios.

An approved pricing run is required for all credit products offered by Siemens Bank resp. Siemens Financial Services at the following points in time:

- As a required input for the lending authority approval of a pending transaction
- As a required input(s) for the approval of generic rate offerings (eg "rate cards" prior to that periods rate card being published)
- As a required notification of significant risk/return profile change, (i.e. a negative deviation of ROE) to the Lending Authority for a pending transaction
- As a required evaluation ("Pricing review") of all contractual transactions in short order after the contracts are executed (eg: After the contracts for a final allocation of a syndicated deal are executed).

2. Pricing Tools

Overview

The Pricing infrastructure at Siemens Bank resp. SFS can be broken down into 3 major parts. For intents and purposes of this document, the following terms will be defined in this way:

- Pricing Application – "PrApp"
    - The one true source for Expected Loss, ROE, and Pricing EVA calculations (or transaction structures determined as a result of targeting specific values for these KPIs – "targeting").
    - A centralized calculation engine that holds relevant information in addition to that supplied by a pricing front end, and a globally uniform calculation methodology for pricing.
    - Additional data provided includes:
        - Daily updated interest rates and liquidity spreads
        - Default probabilities
        - Asset valuation curves.
    - PrApp has a required format for input and has a standard return output leverageable by various business specific front ends and databases.

- Front End/Interfaces – Any technology allowing for a user/bot/program to consistently populate the specific attributes of a transaction or model that will prepare and transmit the required input to PrApp, and consume the standard output supplied by PrApp.

- Reporting – Any end user representation of pricing results (including any combination, and not limited to specific inputs from pricing front end, PrApp inputs, and PrApp outputs)

Requirements

The Business Unit gives directions and aligns with Risk Controlling & Analytics for:

- Acquiring Risk Controlling and Analytics approval for:
    - The selection of business required front end interfaces
    - The version of PrApp to be used for pricing their business

        - Note: RCA can withdrawal approval for the usage of a version of PrApp considered obsolete
    - The representation of PrApp supplied results in approved pricing evidence (i.e. reporting)

- Retaining at a minimum:
    - Information to identify an approved pricing
    - Information necessary to evidence that the inputs of an approved pricing are accurate
    - The unique ID of the results returned by PrApp for those pricings

Risk Controlling & Analytics is responsible for:

- The availability of the PrAPP application
- The overall governance of the Pricing Application ("PrApp") as it pertains to technical change management (ie. Documenting Requirements, budget, testing, etc.)
- Informing the business of impending changes to PrApp (eg: methods, connections, availability, etc.) with enough time for the business to analyze business impacts, and plan for technical changes to pricing front ends and reporting
- Maintenance and development of Pricing Front Ends where RCA is the application owner (e.g. BTS Pricing, Supertrump, SAP BW)
- Storing the PrApp originated key inputs (eg: Liquidity Spread) and calculated results (eg: ROE) in a database with a unique ID (for future reference/analytics)
- Supply on demand training and support with regards to PrApp (eg: training, technical, testing, etc.)
- Reviewing and approving front ends implemented by the business
- Supporting the reporting & analytics needs of the BUs (e.g. New Business Analysis, PPR reporting, alignment with SieSales, etc.).

3. Pricing Output

Overview

The following output figures are mandatory when transactions are presented to local and / or global credit committees:

- Total Income rate split into customer rate and fee impact
- Cost of Funds split into cost of market rate and cost of funding spread
- Total Income less Cost of Funds calculated as Total Income minus Cost of debt
- Cost of Expected Loss
- Gross Margin calculated as Total Income less of Cost of Funds minus the Expected Loss
- Cost of Opex / Admin cost
- IBIT Margin calculated as the Gross Margin minus the Opex spread

In addition to the rates above the following Return on Equity after Tax (RoE) and Economic Value Added (EVA) information shall be provided:

- Initial Analytical Risk Equity
- Initial Fixed Risk Equity
- RoE based on Analytical Risk Equity calculated with zero Opex
- RoE based on Analytical Risk Equity calculated with the BU Opex spread
- RoE based on Fixed Risk Equity calculated with zero Opex
- RoE based on Fixed Risk Equity calculated with the BU Opex spread
- Economic Value Added after Tax based on Analytical Risk Equity (incl. BU Opex spread)
- Economic Value Added after Tax based on Fixed Risk Equity (incl. BU Opex spread)

In addition, PrApp produces an output for basic accounting figures of the transaction and each year until expected maturity consisting of

- Interest Income
- Fee Income from amortizing fees
- Fee Income from non-amortizing fees
- Cost of Funds
- Allowances (Delta)

Furthermore, a simplified Accounting view on the above figures is provided (including no Opex or income components that are not listed above).

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4. Methods

Overview

For intents and purposes of this document, Pricing methods can be broken down into 3 parts:

1. Methods for establishing both transaction specific and business modelled "inputs" of a pricing. These methods are established by the business with support of RCA (as requested):
    - Transaction specific "inputs", are those items whose exact value will be defined by a transaction or established by a required SFS internal process as the result of entering into a transaction (eg: Allocated amount of a syndication, Rating, etc.).
    - Business modelled "inputs" of a pricing are those items whose exact value will not be defined by a transaction or internal process as the result of entering a transaction. These types of inputs are primarily model based assumptions (eg: Revolver utilization).

2. Methods for determining a risk-based financial performance of a transaction. This method includes (but is not limited to) models for determining Probability of Default, the value of collateral, Cost of funds, Expected Loss, and their effects on Return on financial performance indicators such as Equity (ROE), and Economic Value Added (EVA).

3. Methods for establishing acceptable thresholds. For intents and purposes of this document, thresholds are the identification of specific "output" results of a pricing, and the defined limits for those outputs. (eg: ROE of 15%)

The following defines the responsibilities of specific functions in regard to these methods, as well as specific constraints to be used for approved pricings.

Requirements:

The BU Management is responsible for:

- Establishing/documenting the pricing thresholds for business defined segmentation in accordance with the governance / targets set by Siemens Bank resp. SFS Management
- Approving exceptions of business defined thresholds
- Approving models/definitions for "business modelled inputs" of a pricing (eg. Revolver Utilization)
- Approving exceptions of pricing inputs (both transaction specific and business modelled)

The Business Unit Finance Heads are responsible for:

- Ensuring adherence of pricing runs to the requirements of this document (eg: using PrApp)
- Ensuring adherence of pricing runs to the Credit Policy (eg: Recovery Rate)
- Ensuring accuracy of pricing runs in accordance with the related Credit Approval Package

- Ensuring accuracy of pricing runs when compared to the contractual definition of a transaction (eg: Actual Funding Date, Actual Syndicated Allocation Amount)
- Definition and justification of "business modelled inputs" (eg: Revolver Utilization)
- Ensuring pricing inputs adhere to requirements from Tax and Accounting.

Risk Controlling & Analytics is responsible for:

- Definition and justification of the risk-based methodology for determining the financial performance of a transaction
- Informing the business of impending changes to the risk-based financial performance method, with enough time for the business to analyze business impacts
- Informing the business of impending changes to RCA controlled required inputs from pricing front ends (eg: Probabilities of Default), with enough time for the business to analyze business impacts, and execute changes to pricing front ends
- Supply on demand training and support for Risk-Based financial performance method.

Appendix

For an approved pricing run the following input requirements are mandatory:

- Opex: All pricings for Siemens Bank resp. SFS credit committee must be priced with budgeted OPEX spread of the BU and an OPEX of 0.
- Cost of Funds (for debt) must be representative of the cost of debt to fund a particular transaction based on its currency, cashflow structure, and fixing frequency.
    - In the case of future dated transactions, reserved rates provided by the supplier of debt (eg: Siemens Treasury) can be used. Evidence of the structure used to determine the rate, and the reserved rate supplied must be retained.
    - In the case of a transaction with a fixing frequency that differs from the available options within PrApp (eg. Fixed, 1M float, 3M float, and 6M float), the default fixing frequency of PrApp should be supplied.
    - Effects coming from portfolio funding approaches (eg: recycling of old debt at a lower rate)should not be reflected in the pricing for an individual transaction as this is not a market representation of a given transaction.
- Guarantor Information: In the case of a guarantee of the transaction guarantor risk parameters must be supplied.
    - Percentage of nominal covered by Guarantor (for partial guarantees)
    - Guarantor Rating
    - Guarantor Company Size
    - Guarantor Recovery Rate
- Recovery Rate: All transactions must be priced using the generic recovery rates as defined in the Credit Policy unless specific recovery rates have been approved for the transaction. Equity Allocation
- Rating: All obligors of transactions must be assigned a rating in compliance with the Credit Policy and the respective rating guidelines.
- Asset recovery: All transactions with asset recoveries must be assigned an asset recovery in alignment with the Credit Policy and the respective guidelines.
- The Equity Markup is supplied in the pricing tools as default value (being updated on a quarterly basis).
- Siemens Bank resp. SFS defines two approaches for allocating equity to a transaction:
    - Analytical Equity (Economic Allocation of Risk Equity) - the capital position SFS will put into an individual transaction. The analytical equity is returned by PrApp and is calculated for each transaction specifically - depending on the risk parameters.
    - Fixed Equity - is based on the overall risk floor for the entire debt portfolio. The fixed equity calculation is utilized in the pricing application as a default value.
- Pricing Set: The Pricing set determines the Funding conditions depending on the Entity
- G-Factor: Big or Small. Big for Obligors with annual revenues > EUR 50 Mio. captured in CBASE and STAR with Rating Method LRM or external rating. Where a rating in CBASE is not available, the transaction risk manager is responsible to determine BIG/Small.
- The required return on risk adjusted capital (RORAC) is defined in the "Country-specific costs of capital" published annually by SFS AC
- All other transactional inputs must be provided with the best available information to the business.