ANNUAL FINANCIAL STATEMENTS

BALANCE SHEET FOR THE FISCAL YEAR ENDED 31 DECEMBER 2020

of FMS Wertmanagement

Assets	in EUR thousand	in EUR thousand	31.12.2020 in EUR thousand	31.12.2019 in EUR thousand
1. Cash reserve				
Balances with central banks		10,695,410		6,096,607
Including: with Deutsche Bundesbank EUR 10,695,410 thousand (previous year: EUR 6,096,607 thousand)				
			10,695,410	6,096,607
2. Loans and advances to banks				
a) Payable on demand		37,187,064		32,708,987
b) Other loans and advances		1,789,142		1,962,270
			38,976,206	34,671,257
3. Loans and advances to customers			14,195,002	15,730,822
Including: secured by mortgages EUR 339,377 thousand (previous year: EUR 398,628 thousand) Public-sector loans EUR 4,475,809 thousand (previous year: EUR 5,104,785 thousand)				
4. Debt instruments				
a) Bonds and notes				
aa) Public-sector issuers	28,484,465			30,783,041
Including: eligible as collateral for Deutsche Bundesbank advances EUR 18,847,215 thousand (previous year: EUR 20,065,182 thousand)				
ab) Other issuers	30,254,977			34,635,633
Including: eligible as collateral for Deutsche Bundesbank advances EUR 880,109 thousand (previous year: EUR 3,776,213 thousand)				
		58,739,442		65,418,674
b) Own debt instruments		13,112,393		14,851,752
Principal amount EUR 13,112,310 thousand (previous year: EUR 14,848,128 thousand)				
			71,851,835	80,270,426
5. Other long-term equity investments			3	3
Including: in banks EUR 0 thousand (previous year: EUR 0 thousand) in financial services institutions EUR 0 thousand (previous year: EUR 0 thousand)				
6. Shares in affiliated companies			245,739	474,346
Including: in banks EUR 173,274 thousand (previous year: EUR 323,274 thousand) in financial services institutions EUR 30,000 thousand (previous year: EUR 30,000 thousand)				
7. Intangible fixed assets			151	333
Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets				
8. Tangible fixed assets			80	170
9. Other assets			392,116	477,746
10. Prepaid expenses			9,437,901	8,768,027
Total assets			**145,794,443**	**146,489,737**

Equity and liabilities		in EUR thousand	31.12.2020 in EUR thousand	31.12.2019 in EUR thousand
1. Liabilities to banks				
a) Payable on demand		1,019,265		948,279
b) With agreed maturity or notice period		8,065,723		2,596,817
			9,084,988	3,545,096
2. Liabilities to customers				
Other liabilities				
a) Payable on demand		81,369		85,919
b) With agreed maturity or notice period		33,398,899		40,893,040
			33,480,268	40,978,959
3. Securitised liabilities				
a) Debt instruments issued		40,175,076		55,890,254
b) Other securitised liabilities		41,989,582		25,043,047
Including: Commercial paper: EUR 41,989,582 thousand (previous year: EUR 25,043,047thousand)				
			82,164,658	80,933,301
4. Other liabilities			1,291,748	651,549
5. Deferred income			17,728,669	18,288,231
6. Provisions				
a) Provision for taxes		2,668		18,869
b) Other provisions		267,737		322,394
			270,405	341,263
7. Equity				
a) Subscribed capital		200		200
b) Capital reserves		1,800		1,800
c) Retained earnings				
Other retained earnings		1,749,338		1,513,219
d) Net retained profits		22,369		236,119
			1,773,707	1,751,338
Total equity and liabilities			**145,794,443**	**146,489,737**
1. Contingent liabilities				
Contingent liabilities from guarantees and indemnity agreements			601,446	657,551
2. Other obligations				
Irrevocable loan commitments			700,849	1,916,049

INCOME STATEMENT

of FMS Wertmanagement for the period from 1 January until 31 December 2020

Income statement	in EUR thousand	in EUR thousand	01.01.–31.12.2020 in EUR thousand	01.01.–31.12.2019 in EUR thousand
1. Interest income from				
a) Lending and money market transactions	4,073,227			4,769,837
Including: negative interest deducted: EUR 392,723 thousand (previous year: EUR 247,021 thousand)				
b) Fixed-income securities and registered government debt	1,684,034			1,973,806
		5,757,261		6,743,643
2. Interest expenses				
Including: positive interest deducted EUR 407,185 thousand (previous year: EUR 305,098 thousand)		–5,417,235		–6,418,586
			340,026	325,057
3. Current income from				
a) Other long-term equity investments		0		5
b) Shares in affiliated companies		27,146		49,136
			27,146	49,141
4. Income from profit pooling, profit transfer or partial profit transfer agreements			2,666	1,417
5. Commission income		11,193		13,045
6. Commission expenses		–24,393		–17,844
			–13,200	–4,799
7. Other operating income			63,115	8,996
8. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	–14,491			–17,476
ab) Social security, post-employment and other employee benefit costs	–1,622			–1,660
Including: in respect of post-employment benefits EUR 130 thousand (previous year: EUR 138 thousand)		–16,113		–19,136
b) Other administrative expenses		–118,100		–118,382
			–134,213	–137,518
9. Depreciation, amortisation and write-downs of intangible and tangible fixed assets			–272	–547
10. Other operating expenses			–6,300	–11,019
11. Write-downs of and valuation allowances on receivables and certain securities, and additions to loan loss provisions		0		–282,789
12. Income from reversals of write-downs of receivables and certain securities and from the reversal of loan loss provisions		156,479		0
			156,479	–282,789
13. Write-downs of and valuation allowances on shares in affiliated companies, other long-term equity investments and securities classified as fixed assets		–411,109		0
14. Income from reversals of write-downs of shares in affiliated companies, other long-term equity investments and securities classified as fixed assets		0		305,621
			–411,109	305,621
15. Result from ordinary activities			24,338	253,560
16. Taxes on income			–1,961	–17,311
17. Other taxes not included in “10. Other operating expenses”			–8	–130
18. Net income for the year			22,369	236,119
19. Net retained profits			22,369	236,119

CASH FLOW STATEMENT

of FMS Wertmanagement for the period from 1 January until 31 December 2020

Cash flow statement			01.01.– 31.12.2020 in EUR thousand	01.01.– 31.12.2019 in EUR thousand
1.		Net income / loss for the period	22,369	236,119
		Non-cash items included in net income / loss for the period and reconciliation to cash flow from operating activities		
2.	+/–	Depreciation, amortisation and write-downs and valuation allowances on receivables and items of fixed assets / reversals of such write-downs and valuation allowances	–47,778	301,877
3.	+/–	Increase / decrease in provisions	–54,657	–114,546
4.	+/–	Other non-cash expenses / income	–1,585,137	–105,006
5.	–/+	Gain / loss on disposal of fixed assets	–2	–232,998
6.	–/+	Other adjustments (net)	–2,666	–50,559
7.	–/+	Increase / decrease in loans and advances to banks	–5,032,165	1,469,588
8.	–/+	Increase / decrease in loans and advances to customers	1,384,423	–2,159,297
9.	–/+	Increase / decrease in securities	3,464,138	902,213
10.	–/+	Increase / decrease in other assets relating to operating activities	–1,874,790	–2,620,644
11.	+/–	Increase / decrease in liabilities to banks	5,658,599	–6,603,231
12.	+/–	Increase / decrease in liabilities to customers	–7,224,463	27,143,108
13.	+/–	Increase / decrease in securitised liabilities	7,463,956	–21,042,800
14.	+/–	Increase / decrease in other liabilities relating to operating activities	2,264,483	3,350,290
15.	+/–	Interest expense / interest income	–340,026	–325,057
16.	+/–	Income tax expense / income	1,961	17,311
17.	+	Interest and dividend payments received	4,905,419	5,260,590
18.	–	Interest paid	–4,665,531	–4,971,304
19.	–/+	Income taxes paid	–2,508	78,967
20.	=	**Cash flows from operating activities**	**4,335,625**	**534,621**
21.	+	Proceeds from disposal of long-term financial assets	155,886	638,671
22.	+	Proceeds from the accrual of WH-Erste Grundstücks GmbH & Co. KG, Munich	40,713	0
23.	–	Payments to acquire long-term financial assets	–11,156	0
24.	+	Proceeds from disposal of tangible fixed assets	2	3
25.	–	Payments to acquire tangible fixed assets	0	–1
26.	=	**Cash flows from investing activities**	**185,445**	**638,673**
27.	=	**Cash flows from financing activities**	**0**	**0**
28.		Net change in cash funds	4,521,070	1,173,294
29.	+/–	Effect on cash funds due to exchange rate movements and remeasurements	–3,061	3,583
30.	+	Cash funds at beginning of period	6,219,570	5,042,693
31.	=	**Cash funds at end of period**	**10,737,579**	**6,219,570**

The cash flow statement was prepared using the indirect method in accordance with DRS 21. The cash funds reported comprise demand deposits with banks that are payable on demand and do not serve as collateral for financial derivatives, as well as balances with Deutsche Bundesbank.

STATEMENT OF CHANGES IN EQUITY

Statement of changes in equity for the period from 1 January until 31 December 2020

	Balance at 01.01.2020 in EUR thousand	Appropriation of net income / loss in EUR thousand	Net income for the year in EUR thousand	Balance at 31.12.2020 in EUR thousand
Subscribed capital	200	0	0	200
Capital reserves	1,800	0	0	1,800
Other retained earnings	1,513,219	236,119	0	1,749,338
Net retained profits	236,119	–236,119	22,369	22,369
Equity as defined by German commercial law	1,751,338	0	22,369	1,773,707

Net retained profits from fiscal year 2019 were transferred to retained earnings by decision of the Supervisory Board of FMS Wertmanagement AöR dated 1 April 2020.

Statement of changes in equity for the period from 1 January until 31 December 2019

	Balance at 01.01.2019 in EUR thousand	Appropriation of net income / loss in EUR thousand	Net income for the year in EUR thousand	Balance at 31.12.2019 in EUR thousand
Subscribed capital	200	0	0	200
Capital reserves	1,800	0	0	1,800
Other retained earnings	1,398,420	114,799	0	1,513,219
Net retained profits	114,799	–114,799	236,119	236,119
Equity as defined by German commercial law	1,515,219	0	236,119	1,751,338

NOTES

GENERAL INFORMATION

Legal framework

FMS Wertmanagement AöR, Munich (FMS-WM), was founded on 8 July 2010 and recorded in the Commercial Register of the Munich Local Court under number HRA 96076 on 13 September 2010. FMS-WM is domiciled in Munich.

Under agreements dated 29 and 30 September 2010, a portfolio with a nominal value of EUR 175.7 billion (excluding derivatives) was transferred to FMS-WM effective 1 October 2010.

FMS-WM is an organisationally and financially independent winding-up institution under public law with partial legal capacity that may engage in legal transactions in its own name, sue and be sued in court. It is regulated and supervised by the Federal Agency for Financial Market Stabilisation, Frankfurt am Main (FMSA), and the Federal Financial Supervisory Authority, Bonn and Frankfurt am Main (BaFin).

In 2012, FMS-WM established its own service entity, FMS Wertmanagement Service GmbH, Unterschleißheim (FMS-SG), which assumed responsibility for portfolio servicing and the provision of all material services associated with it effective 1 October 2013. FMS-WM retains final decision-making powers and ultimate responsibility for the risk assets under management. The master agreement governing the outsourcing of business processes and services also grants FMS-WM extensive rights to obtain information and perform inspections, enabling the latter to monitor and control the servicing of the risk assets by FMS-SG. FMS-SG operated from three sites in fiscal year 2020 (Unterschleißheim, Dublin and New York).

In addition, IBM Deutschland GmbH, Ehningen (IBM Deutschland) and DATAGROUP Financial IT Services GmbH, Düsseldorf (DG FIS), were engaged to provide essential IT services.

DEPFA BANK plc

Effective 19 December 2014, FMS-WM acquired all shares in DEPFA BANK plc, Dublin (DEPFA BANK plc). With this action, FMS-WM implemented the decision of 13 May 2014 by the inter-ministerial steering committee, which, after considering all options, decided to wind up DEPFA BANK plc and its subsidiaries via FMS-WM.

Accounting principles

These annual financial statements of FMS-WM were prepared in accordance with Section 8a (1) Sentence 10 in conjunction with Section 3a (4) of the German Financial Markets Stabilisation Fund Act (Finanzmarktstabilisierungsfondsgesetz – FMStFG) and the supplementary provisions of its Charter pursuant to the provisions of the Handelsgesetzbuch – HGB for large corporations, the supplementary provisions of the HGB for credit institutions and financial services institutions as well as the requirements of the Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV.

Since FMS-WM is a capital market oriented organisation as defined by Section 264d HGB, it has expanded its annual financial statements to include a statement of changes in equity and a cash flow statement in accordance with Section 264 (1) Sentence 2 HGB. A management report has also been prepared.

Accounting policies

Assets, liabilities as well as prepaid expenses and deferred income are recognised in accordance with the principles laid out in Section 246 ff. HGB. Assets, liabilities and executory contracts are measured based on the principles of Section 252 ff. HGB in conjunction with Section 340 ff. HGB. Pursuant to Section 2 (1) RechKredV, FMS-WM used Form 1 to structure the balance sheet and Form 3 (vertical presentation format) for the income statement.

FMS-WM took over assets, provisions, liabilities, prepaid expenses and deferred income as well as derivatives effective as at 1 October 2010 for accounting purposes. The transfer of assets is recognised in line with general principles; with respect of the assets taken over as part of the spin-off for absorption (Section 123 (2) No. 1 UmwG) recognition is based on Section 24 UmwG. FMS-WM made use of the option in Section 24 UmwG, which provides for a continuation of the transferring entity's book values.

Those book values were used if the assets were transferred to FMS-WM under so-called "concentration agreements". If the transferor prepares its accounting pursuant to the International Financial Reporting Standards (IFRS), the IFRS book value corresponds to FMS-WM's acquisition cost. The IFRS book value contains hedge adjustments for loans, advances and securities that were reported in micro valuation units; the hedge adjustments related to securities are reported under the item, Debt instruments, and those for loans under prepaid expenses and deferred income. The hedge adjustments for loans or securities are generally contrasted by the market value of the hedging derivatives transferred. The payments that FMS-WM has received or made for the hedging derivatives are shown under prepaid expenses and deferred income. The hedge adjustments and the recognised items for accrued payments related to derivatives are amortised regularly over the remaining terms to maturity of the corresponding transactions. Expenses and income from such amortisation are reported under interest expense or interest income. Amortisation of deferred items and current premium payments on credit default swaps (CDS) are reported under the items, Commission expenses or Commission income.

The fact that the transferring entity's book value represents the transfer price was to be taken into account as part of the acquisition process. Consequently, the risk provisions recognised by the transferring entity were to be taken into account in the determination of the transfer price. The transfer price in turn represented FMS-WM's acquisition costs.

Loans and advances to banks and loans and advances to customers are generally carried at their nominal value less risk provision as specific and general loan loss provisions. Differences between the nominal value and the acquisition cost, which are similar in nature to interest, are accounted for in prepaid expenses and deferred income and recognised in profit or loss under net interest income on a pro-rata basis over the term of the receivable. The proportionate interest calculated at the reporting date is recognised together with the underlying receivable.

On the basis of proposals by FMS-SG, analyses by expert third parties and analyses by FMS-WM itself, *specific loan loss provisions* and *provisions* are recognised for individual risks that have arisen in the lending business; these provisions take into account both the specific counterparty default risk and, if unwinding measures are sufficiently specific, the conditions on the sales market as well. Expected future proceeds from the realisation of collateral are discounted over the realisation period as necessary using a market interest rate with matching maturities.

Latent risks in the lending and securities business are covered by *general loan loss provisions* set up in line with the requirements of the IDW statement BFA 1/1990 on the recognition of general loan loss provisions. They are calculated based on the loss expected within one year as determined by FMS-SG, which is modelled for the case in question using several parameters: probability of default, amount of exposure in the event of a default and expected recovery rate in the event of a default.

In fiscal year 2020, the parameters used to calculate general loan loss provisions were extended to include a market uncertainty factor due to the market uncertainty related to the impact of coronavirus (SARS-CoV-2 / COVID-19). As a result, the increased latent default risks associated with the COVID-19 pandemic, which FMS-WM believes may have occurred as at the reporting date but are not yet observable based on currently available data, were taken into account when making allocations to the general loan loss provision. The market uncertainty factor is determined based on FMS-WM's estimate of the change in the credit quality of the portfolio (based on the expected loss for a one-year forecast horizon), which was developed using a stress scenario analysis of the expected effects of the COVID-19 pandemic on the portfolio. The stress scenario analysis is based on macroeconomic assumptions and uses external market data and internal expert estimates. The market uncertainty factor reflects the credit quality in the stressed scenario relative to the credit quality in the unstressed scenario.

Collective country risk provisions are additionally recognised for exposures subject to discernible country risks. They are recognised in accordance with the methods required under German tax law. The countries to be included and the amount of the risk provisions are determined on the basis of external country ratings that reflect current and expected economic data as well as the overall political situation in the countries in question.

Debt instruments, excluding own issues bought back, are allocated to fixed assets (financial assets) because they are continuously used for operations. Debt instruments are measured at amortised cost in accordance with Section 253 (1) and (3) HGB. If FMS-WM estimates these assets as permanently impaired, impairment losses are charged in accordance with Section 340e (1) Sentence 1 in conjunction with Sentence 2 HGB. The existence of permanent impairment is determined in the case in question on the basis of information supplied by FMS-SG, commissioned expert third parties and through FMS-WM own investigations. The test of whether there is permanent impairment is generally conducted similar to the test for impairment of loan receivables, except that market values representing an additional trigger in the test for impairment of wind-up clusters with a high percentage of securities traded on liquid markets are to be taken into account.

In case of a sufficiently concrete intention not to hold specific securities to maturity, these securities will no longer be recognised as continuously used for operations. They will be measured in line with the strict lower-of-cost-or-market principle. If a full reversal of valuation measures is not expected for these securities by the end of their holding period, a write-down to the lower fair value will be recognised.

Financial assets that are not permanently impaired are included in the measurement base for calculating the general loan loss provision.

When the reasons for permanent impairment no longer apply, write-ups are charged in accordance with Section 253 (5) Sentence 1 HGB up to a maximum of the amortised cost.

Own debt instruments bought back are allocated to current assets (liquidity reserve). They are measured in accordance with the strict lower-of-cost-or-market principle in accordance with Section 253 (4) HGB.

The fair values of securities and derivatives are determined either based on external rate sources (e. g. via stock exchanges or other providers such as Reuters) or based on market value derived from internal measurement models (mark to model). Fair values of securities are largely determined on the basis of securities prices obtained from external sources. Derivatives are largely measured using specific measurement models, whereby the counterparty risk in the case of unsecured OTC derivatives is taken into account when determining any provisions for expected losses for hedge inefficiencies or for stand-alone derivatives. The estimation techniques used to determine any excess obligation in connection with hedge inefficiencies and stand-alone derivatives (standard measurement models such as the discounted cash flow method) factor in market data relevant to the measurement (in particular yield curves and exchange rates) as at the reporting date, the counterparties' potential probability of default and any collateral. The excess obligations determined in this way are accounted for in the form of provisions for expected losses.

In the measurement of secured and unsecured derivatives, future cash flows are discounted on the basis of OIS swap curves.

Securities holdings are measured based on the following measurement hierarchy, which is oriented above all on the availability of plausible external market data:

- If an (indicative) market price (quote) is available for a liquid market, it is used.
- If a market price is not available or the market is not sufficiently liquid, the measurement is converted to a proxy measurement based on the available market prices for similar securities.
- If an appropriate proxy security cannot be identified, the measurement is carried out using the benchmark spreads or estimated spreads determined by FMS-SG’s experts.
- Securities not measured based on market prices, proxies, or spreads (e. g. structured inflation-linked bonds) are measured based on financial mathematical models.

The parameters for internal valuation models (e. g. interest rate curves, volatilities, spreads) are mostly derived from external sources and reviewed by Risk Controlling as to their plausibility and accuracy. The models used for measuring structured derivatives are initially calibrated on the basis of market data, with the subsequent valuation being based on the resulting model parameters.

Differences that stem from the reporting of securities classified as fixed assets above their fair value based on application of the moderate lower-of-cost-or-market principle are shown separately in the notes.

FMS-WM holds positions in asset-backed securities (ABS). These structured financial instruments are not required to be separated; they are each carried as a single asset and in compliance with IDW RS HFA 22.

Securities repurchase agreements are recognised in accordance with the provisions of Section 340b HGB. The securities sold under genuine repurchase agreements are still reported in the balance sheet of FMS-WM. Depending on the transferee, the obligation to repurchase securities sold under repurchase agreements is presented under the balance sheet items, Liabilities to banks, or Liabilities to customers. If securities repurchase agreements were entered into (as buyer) to place excess liquidity on the money market, the resulting receivables are recognised under the balance sheet items, Loans and advances to banks or Loans and advances to customers, depending on the transferor. The specific securities are not reported in FMS-WM’s balance sheet due to the lack of beneficial ownership.

Shares in affiliated companies and other long-term equity investments are recognised at cost. If impairment is expected to be permanent, write-downs to the lower fair value are recognised.

Tangible fixed assets are recognised at cost less depreciation. The useful life is determined based on the expected wear and tear of the tangible fixed assets.

Intangible assets are recognised at cost less amortisation. The useful life is determined based on factors expected to limit the longevity of the intangible assets.

For the sake of simplicity and in compliance with the tax regulations, since 1 January 2019 assets costing EUR 800.00 or less before VAT have been written down in full in the year of acquisition.

Deferred tax assets and deferred tax liabilities are initially calculated as at 31 December 2020 on temporary differences between the book values of the assets or liabilities and their tax base and measured based on a combined income tax rate of 29.55%. The combined income tax rate comprises corporate income tax, trade tax and the solidarity surcharge. In a general overview, FMS-WM's deferred tax assets exceed its deferred tax liabilities. The surplus of deferred tax assets at 31 December 2020 mainly stems from temporary differences with respect to the balance sheet items, Loans and advances to banks, Loans and advances to customers, Debt instruments, as well as Provisions for expected losses. Tax loss carryforwards also exist. As in the previous year, FMS-WM does not make use of the option to recognise the surplus of deferred tax assets in the balance sheet in accordance with Section 274 (1) Sentence 2 HGB.

Based on the existing control and profit-and-loss transfer agreement dated 16 October 2012, there is a consolidated VAT, corporate income tax and trade tax group with FMS-SG. Consequently, the German tax obligations of FMS-SG are considered in FMS-WM's annual financial statements.

Prepaid expenses include:

- Expenditures prior to the reporting date where these concern expenses in a certain period of time after the reporting date
- Deferrals (discounts) in connection with the funding business
- Deferrals in connection with derivative products. This primarily concerns payments made by FMS-WM for entering into derivatives (positive market values)
- Payments made to compensate for the difference between €STR and EONIA upon the change of interest rate on EUR-denominated cash collateral for collateralised derivatives
- Deferrals of positive differences between the nominal value of receivables and the the acquisition costs, which are similar in nature to interest

Prepaid expenses are generally amortised on a pro rata basis. To the extent that prepaid expenses were deferred for payments made in connection with the takeover of derivatives and there are serious doubts regarding the derivatives' validity or the recoverability of the payments from these derivatives, these components of prepaid expenses are derecognised through profit or loss.

Liabilities are carried at their settlement amount. Differences between the issue amount and the settlement amount of the liabilities are posted to deferred income or prepaid expenses and released through profit and loss on a pro rata basis.

Provisions for uncertain liabilities and provisions for expected losses from executory contracts are recognised at the settlement amount dictated by prudent business judgement. Provisions with a remaining maturity of more than one year are generally discounted in accordance with Section 253 (2) HGB using the average market interest rate of the past seven fiscal years corresponding to their remaining maturity. The applicable interest rates are published by Deutsche Bundesbank. Provisions for expected losses from executory contracts (derivatives) were recognised in the amount of the existing excess of expected obligations over expected benefits. Financial mathematical valuation models are applied to determine the excess obligation especially with regard to derivatives that have a complex structure.

Regardless of future developments, if a fixed excess obligation exists in the relevant market risk factors for a derivative, this is not recognised as a provision for expected losses but instead in other liabilities.

Deferred income includes:

- Proceeds received prior to the reporting date where these concern income in a certain period of time after the reporting date
- Deferrals (premiums) in connection with the funding business
- Deferrals in connection with derivative products. This primarily concerns payments received by FMS-WM for entering into derivatives (negative market values)
- Payments received to compensate for the difference between €STR and EONIA upon the change of interest rate on EUR-denominated cash collateral for collateralised derivatives
- Deferrals in connection with the lending business (discounts on receivables)

Deferred income is generally amortised on a pro rata basis.

Derivative financial instruments are entered into to hedge interest rate risk in individual hedged items, to manage general interest rate risk and to hedge inflation, credit and currency risks. The derivative financial instruments held in the portfolio are allocated to the non-trading portfolio.

- Derivative financial instruments serving to *hedge the market risks (basically interest rate risks) of individual hedged items* are designated into micro valuation units along with the hedged items in accordance with Section 254 HGB.
- Derivative financial instruments that are used to *manage the general interest rate risk* are aggregated into an offsetting item with the other transactions in the banking book (securities and loans) that are interest-based and regarded as non interest-induced as well as the financial instruments issued for funding purposes. Prevailing opinion holds that this is not a valuation unit under Section 254 HGB but an accounting practice.

- Derivatives such as CDS are used to *hedge credit risks*. These derivatives are not aggregated with other hedged items in valuation units and are measured in accordance with the general principles of commercial law (in accordance with IDW RS BFA 1).

- Derivative financial instruments such as currency and cross currency interest rate swaps are used in connection with the *management of foreign currency positions* to close open risk positions.

Consistent with the specifications of risk management, documented hedging relationships are entered into at the transaction level (micro valuation units) to hedge market risks. The term of the hedged item is used as the time horizon. Hedged items may include acquired or issued securities, loan receivables or loan liabilities, and derivatives. FMS-WM recognises these hedging relationships using the net hedge presentation method (“Einfrierungsmethode”) in accordance with Section 254 HGB. Where the offsetting changes in value resulting from the hedged risk (especially interest rate risk) are compensated, the changes in value in the hedged item or in the hedge are not recognised. In an existing excess obligation, the ineffective portion of the hedging relationship’s hedged risk is recognised as an expense in accordance with the imparity principle pursuant to IDW RS HFA 35 through the recognition of a provision for expected losses. The ineffective portion is computed by comparing the change in value from the hedged risk of the hedged item with the change in value from the hedged risk of the hedging instrument. Excess obligations for unhedged risks are treated in accordance with general accounting policies, taking into account the item-by-item measurement principle. Expenses from additions to provisions for expected losses are shown in the net revaluation gain / loss for the lending and securities business.

All hedging relationships are tested for effectiveness. The prospective effectiveness of the hedging relationships is examined primarily on the basis of linear regression or using the critical terms match method.

Furthermore, FMS-WM holds credit derivatives (e. g. CDS) where it is the guarantor or the secured party. These credit derivatives are accounted for in accordance with IDW RS BFA 1.

In addition to the necessary and recognised provisions for expected losses for valuation units, the entire interest rate portfolio and / or banking book is evaluated for the existence of an excess obligation. All interest-based financial instruments (“Refinanzierungsverbund”) are included in this evaluation, including those that are designated as valuation units under Section 254 HGB. Additional provisions for expected losses for the excess obligation are only recognised in accordance with IDW RS BFA 3 if an excess obligation existed in this offsetting item. The loss compensation obligation of the Financial Market Stabilisation Fund (FMS) under Section 7 of FMS-WM’s Charter is included in the offsetting item.

In accordance with IDW Accounting Practice Statement IDW RH FAB 1.020, a change in an interest rate benchmark due to the EU Benchmarks Regulation does not result in the derecognition of a floating rate financial instrument. A valuation unit continues to exist – as a single unit of account in accordance with IDW RS HFA 35 – despite the change in the interest rate benchmark. Compensation payments resulting from changes in interest rate benchmarks are recognised outside profit or loss as also prepaid expenses and deffered income.

Any transfers of derivatives positions from counterparties based in the United Kingdom to EU entities upon the United Kingdom's withdrawal from the EU are recognised outside profit or loss.

Compensation payments received in connection with the removal of the contractual terms on a zero rate floor from the credit support annexes to bilateral derivatives master agreements are presented as deferred income and amortised on a pro rata basis. In the reporting period, amortisation had a positive one-off effect on net interest income amounting to EUR 17 million.

Contingent liabilities are disclosed below the line at their nominal amount after deduction of amortised cost and risk provisions.

Foreign currency items in the balance sheet are translated into the reporting currency (EUR) in accordance with the provisions of Section 256a HGB in conjunction with Section 340a (1) and Section 340h HGB and pursuant to the provisions of IDW RS BFA 4. FMS-WM translated its assets and liabilities at the average spot rate prevailing at 31 December 2020 using the respective reference exchange rate of the ECB. Expenses and income arising from the currency translation of on-balance sheet and off-balance sheet transactions denominated in foreign currencies with special coverage in the same currency are presented net in other operating expenses or other operating income. If excess assets result from the translation of off-balance sheet transactions denominated in foreign currencies within the context of special coverage according to Section 340h HGB, these are recognised in other assets. If excess liabilities arise in this way, they are reported as other liabilities. If forward exchange transactions serve to hedge interest-bearing items, the forward rate is split into its two elements (spot rate and swap rate) in order to account for them separately for the purpose of determining the result.

To the extent that derivative financial instruments feature the exchange of principal (nominal exchange agreement), payments received or payments yet to be made are recognised in other liabilities. Payments made or payments yet to be received are reported in other assets.

Expenses and income were translated into euros at the exchange rate on the transaction date. Expenses and income arising from the currency translation are presented net under other operating expenses or other operating income.

Interest income and interest expense for derivative financial instruments entered into are presented gross, i. e. not netted, in the income statement.

Negative interest is shown in the income statement in accordance with the transaction underlying the agreement of negative interest: Negative interest contractually agreed for assets reduces interest income, whereas negative interest contractually agreed for liabilities reduces interest expense. For the negative interest thus deducted from interest income and interest expense, an "Of which" item was in each case added to Form 3 provided by the RechKredV and used for the presentation of the income statement ("Of which negative / positive interest deducted").

FMS-WM avails itself of the option under Section 340f (3) HGB. Accordingly, income and expenses from the measurement of loans, advances and securities allocated to the liquidity reserve may be shown in a single item after offsetting against income and expenses from the measurement and disposal of such transactions. This also includes additions to or releases of loan loss provisions.

FMS-WM avails itself of the option under Section 340c (2) HGB. Accordingly, expenses from write-downs on long-term equity investments, shares in affiliated companies and securities classified as fixed assets may be offset against the income from additions to such assets and shown in a single expense and income item. Under Section 340c HGB, the expenses and income from transactions involving such assets may also be included. FMS-WM also reports the profit / loss from the sale of securities as well as the profit / loss from the termination of related derivatives transactions in this item.

Significant transactions with DEPFA Group companies

In connection with the mandate received in May 2014 to unwind the DEPFA Group [1] in a way that maximises its value, FMS-WM acquired risk positions of DEPFA Group companies with a nominal volume of EUR 11.7 billion [2] in fiscal years 2016 to 2019 (referred to as “portfolio extensions”). In the 2020 fiscal year, the portfolio was extended by a nominal volume of EUR 75 million. The acquired promissory note loan is reported under loans and advances to banks.

In the course of winding up the DEPFA Group, FMS-WM implemented measures in 2020 to unwind the DEPFA Group’s derivatives portfolio and thus reduce the DEPFA Group’s complexity. A significant portion of the derivatives portfolio of the DEPFA Group was partially transferred to FMS-WM and / or terminated and thus simplified. In addition to reducing complexity and the number of derivative counterparties, this also resulted in a reduction of the total assets of material DEPFA Group companies. As part of the transfer of the DEPFA Group companies’ derivative positions, FMS-WM made or received corresponding compensation payments for the market values of the derivatives. This is accordingly reflected in the development of FMS-WM’s prepaid expenses and deferred income.

DEPFA BANK plc also made a distribution in fiscal year 2020. FMS-WM reduced the book value of its shares in DEPFA BANK plc in the amount of this distribution.

[1] DEPFA Group: DEPFA BANK plc and its direct subsidiaries.
[2] As of each respective acquisition date: November 2016: EUR 5.2 billion, November 2017: EUR 2.0 billion, November 2018: EUR 0.5 billion, June 2019: EUR 1.6 billion, November 2019: EUR 1.0 billion, December 2019: EUR 1.4 billion.

NOTES TO THE BALANCE SHEET

The figures shown in the description of the following balance sheet items also include any accrued interest.

Assets

Cash reserve

The Cash reserve item shows a credit balance with Deutsche Bundesbank in the amount of EUR 10,696 million (31 December 2019: EUR 6,097 million). The increase is attributable in particular to the higher liquidity reserve held at Deutsche Bundesbank in connection with the COVID-19 pandemic.

Loans and advances to banks

	31.12.2020 in EUR million	31.12.2019 in EUR million
a) Payable on demand	37,187	32,709
b) Other loans and advances	1,789	1,962
Total	**38,976**	**34,671**
Including: to affiliated companies	39	405
Including: to other long-term equity investments	0	0

The rise in loans and advances payable on demand is due mainly to an increase in cash collateral required to be provided for financial derivatives.

Loans and advances to affiliated companies include EUR 38 million (31 December 2019: EUR 390 million) in loans and advances to DEPFA BANK plc and EUR 1 million (31 December 2019: EUR 15 million) in loans and advances to DEPFA ACS BANK DAC, Dublin. Loans and advances to affiliated companies result mainly from interest accruals on financial derivatives. As at 31 December 2019, loans and advances to affiliated companies comprised receivables of EUR 269 million in connection with cash collateral required to be provided for financial derivatives.

The remaining maturities of the other loans and advances to banks are as follows:

	31.12.2020 in EUR million	31.12.2019 in EUR million
Up to three months	600	600
More than three months and up to one year	376	637
More than one year and up to five years	0	0
More than five years	813	725
Total	**1,789**	**1,962**

The decline in other loans and advances to banks with a maturity of more than three months and up to one year is due to a decline in interest accruals on financial derivatives.

Loans and advances to customers

	31.12.2020 in EUR million	31.12.2019 in EUR million
Total	14,195	15,731
Including: to affiliated companies	0	0
Including: to other long-term equity investments	0	0

The decline in loans and advances to customers mainly results from scheduled repayments and sales of loans in the portfolio to be unwound, and from portfolio-reducing currency effects. This is contrasted by an increase in cash collateral payable on demand that was required to be provided for financial derivatives as a result of derivatives clearing with the Federal Republic of Germany, represented by Bundesrepublik Deutschland - Finanzagentur GmbH, Frankfurt am Main (German Finance Agency). As at 31 December 2020, the amount of cash collateral to be provided totals EUR 4,430 million (31 December 2019: EUR 4,261 million; vis-à-vis Eurex Clearing AG, Eschborn (Eurex Clearing AG)).

The previously trilateral contract between the Federal Republic of Germany, represented by the German Finance Agency, FMS-WM and Eurex Clearing AG, was changed over to a bilateral contract between the Federal Republic of Germany, represented by the German Finance Agency, and FMS-WM effective 2 January 2020.

The remaining maturities of the loans and advances to customers are as follows:

	31.12.2020 in EUR million	31.12.2019 in EUR million
Payable on demand	4,430	4,271
Up to three months	50	121
More than three months and up to one year	416	858
More than one year and up to five years	1,776	1,454
More than five years	7,523	9,027
Total	**14,195**	**15,731**

As previously, there are no loans and advances with indefinite maturity.

Debt instruments

The Debt instruments item in the balance sheet is broken down as follows:

	31.12.2020 in EUR million	31.12.2019 in EUR million
Book value	71,852	80,270
Of which: public-sector issuers	28,485	30,783
Of which: other issuers	30,255	34,636
Of which: own debt instruments	13,112	14,851
Marketable securities	71,852	80,270
Of which: listed	61,506	68,221
Of which: not listed	10,346	12,049
Securities sold under repurchase agreements	7,067	14,460
Securities due in the following year	5,956	9,161
Securities issued by affiliated companies	25	26

Of the marketable securities, securities with a book value of EUR 58,740 million (31 December 2019: EUR 65,419 million) are held as fixed assets. Of the marketable securities, securities with a book value of EUR 25 million (31 December 2019: EUR 26 million) were issued by affiliated companies.

In addition, the marketable securities include own debt instruments with a book value of EUR 13,112 million (31 December 2019: EUR 14,851 million), which are measured using the strict lower-of-cost-or-market principle because they are treated as current assets. The own debt instruments held by FMS-WM serve to manage liquidity and to provide collateral.

The decline in the Debt instruments item is due to the sale, scheduled repayment and disposal of held-to-maturity securities, portfolio-reducing currency effects and the decline in own debt instruments.

The deferred write-downs on debt instruments total EUR 939 million based on their fair values as at 31 December 2020 (31 December 2019: EUR 1,250 million). This comprises debt instruments with book values of EUR 14,258 million (31 December 2019: EUR 21,073 million) and fair values of EUR 13,319 million (31 December 2019: EUR 19,823 million). Where securities carry hidden losses as at the reporting date, FMS-WM assumes that, due to its mostly long-term wind-up strategy and the securities' expected performance, their fair value will be temporarily less than their book value. Corresponding write-downs were taken if there were any doubts as to collectability.

The book values and the fair values of the securities contained in the banking book, broken down by issuer group, follow from the overview below. The book values include interest to be accrued.

		Other issuers			
in EUR million	Of which: public-sector issuers	Of which: banks	Of which: other issuers	Total 31.12.2020	Total 31.12.2019
Book value	28,485	1,981	28,274	58,740	65,419
Fair value	36,522	2,188	37,139	75,849	76,908
Hidden reserves	8,287	224	9,537	18,048	12,739
Hidden losses (deferred write-downs)	250	17	672	939	1,250
Including:					
Hidden losses, ABS				555	541
Including:					
Hidden losses, PIIGS countries [1]				350	659
Of which:					
Portugal				2	5
Ireland				9	26
Italy				323	598
Spain				16	30

[1] *Issuer's country of domicile*

Of the hidden losses from ABS as at 31 December 2020 an amount of EUR 84 million is attributable to securities from PIIGS countries (31 December 2019: EUR 118 million).

The hidden losses and reserves from debt instruments are also exposed in some cases to countervailing effects on derivatives (particularly interest-based derivatives). For more information, please refer to the section on *Derivative financial instruments*.

Shares in affiliated companies and other long-term equity investments

None of the other long-term equity investments and shares in affiliated companies held by FMS-WM are marketable.

The Shares in affiliated companies item in the balance sheet is comprised as follows:

	31.12.2020 in EUR million	31.12.2019 in EUR million
Book value	246	474
Including: shares in affiliated companies (banks)	173	323
Including: shares in affiliated companies (financial services institutions)	30	30

Shares in affiliated companies (banks) relate to DEPFA BANK plc, and shares in affiliated companies (financial services institutions) relate to FMS-SG.

The decrease in this balance sheet item is mainly attributable to the EUR 150 million distribution made by DEPFA BANK plc in fiscal year 2020. In addition, in fiscal year 2020 WH-Erste Grundstücks GmbH & Co. KG, Munich (WH-Erste KG) accrued to FMS-WM, and Flint Nominees Ltd., London, (Flint Nominees Ltd.) implemented a capital reduction.

Statement of changes in fixed assets

	Cost			Depreciation / amortisation / write-downs				Book value	
in EUR million	Balance 01.01.2020	Additions 2020	Disposals 2020	cumulative 01.01.2020	Current year 2020	Disposals 2020	cumulative 31.12.2020	Balance 31.12.2020	Balance 31.12.2019
Intangible fixed assets	4.5	0.0	0.0	4.2	0.1	0.0	4.3	0.2	0.3
Tangible fixed assets	1.6	0.0	0.0	1.4	0.1	0.0	1.5	0.1	0.2
Shares in affiliated companies and other long-term equity investments	474			–228 [1]				246	474
Bonds and notes	65,419			–6,679 [1]				58,740	65,419

[1] *The option to combine items in accordance with Section 34 (3) RechKredV was used.*

The intangible assets solely concern software licenses purchased for consideration.

The tangible fixed assets solely comprise operating and office equipment.

Regarding shares in affiliated companies and other long-term equity investments, and bonds and notes, please refer to the two sections above.

Other assets

Other assets in the amount of EUR 392 million (31 December 2019: EUR 478 million) mainly include currency translation adjustments of EUR 308 million from off-balance sheet transactions denominated in foreign currencies (31 December 2019: EUR 365 million), which are recognised in the context of special coverage under Section 340h HGB. There are also receivables from single-currency derivatives in the amount of EUR 60 million (31 December 2019: EUR 58 million).

Prepaid expenses

	31.12.2020 in EUR million	31.12.2019 in EUR million
Unamortised payments made for derivatives	8,070	7,274
Lending business (premium from receivables)	1,334	1,443
Issuing business / loans taken out (discount, liabilities)	31	48
Other	3	3
Total	9,438	8,768

The unamortised payments made for derivatives result mainly from payments made by FMS-WM for the market values of derivatives recognised by the transferors as at the transfer date in 2010. The item also contains unamortised payments made by FMS-WM to acquire interest rate derivatives in connection with the wind-up task related to the DEPFA Group. The increase in the unamortised payments made for derivatives is attributable, inter alia, to interest rate hedges in connection with the funding activity and to the acquisition of interest rate derivatives due to the wind-up mandate related to the DEPFA Group. This was partially compensated for by pro rata amortisation and foreign currency effects.

Prepaid expenses from lending business mainly include the deferred, unamortised payments that FMS-WM made as at the transfer date in 2010 for the hedge adjustments of the hedged items (receivables) that were transferred from the transferring legal entities and for risk positions (loan receivables) transferred in connection with the wind-up task related to the DEPFA Group. The decrease is attributable to pro rata amortisation and foreign currency effects.

Subordinated assets

The following item on the assets side of the balance sheet contains subordinated assets:

	31.12.2020 in EUR million	31.12.2019 in EUR million
Debt instruments	47	39

Equity and liabilities

Liabilities to banks

	31.12.2020 in EUR million	31.12.2019 in EUR million
a) Payable on demand	1,019	948
b) With agreed maturity or notice period	8,066	2,597
Total	9,085	3,545
Including: to affiliated companies	459	728
Including: to other long-term equity investments	0	0

Liabilities payable on demand consist of cash collateral received for financial derivatives, of which EUR 438 million is attributable to DEPFA Group companies (31 December 2019: EUR 638 million).

Liabilities with an agreed maturity or notice period consist mainly of liabilities from securities repurchase agreements (as seller) in the amount of EUR 7,123 million (31 December 2019: EUR 1,487 million) and liabilities from accrued interest on derivatives in the amount of EUR 854 million (31 December 2019: EUR 1,010 million).

The remaining maturities of the liabilities with agreed maturity or notice period are as follows:

	31.12.2020 in EUR million	31.12.2019 in EUR million
Up to three months	3,810	0
More than three months and up to one year	4,211	2,499
More than one year and up to five years	0	43
More than five years	45	55
Total	8,066	2,597

Liabilities to customers

	31.12.2020 in EUR million	31.12.2019 in EUR million
a) Payable on demand	81	86
b) With agreed maturity or notice period	33,399	40,893
Total	33,480	40,979
Including: to affiliated companies	43	170
Including: to other long-term equity investments	0	0

Liabilities payable on demand consist mainly of cash collateral received for financial derivatives in the amount of EUR 79 million (31 December 2019: EUR 73 million).

Liabilities with an agreed maturity or notice period consist mainly of funds obtained via the FMS in the amount of EUR 30,010 million (31 December 2019: EUR 25,011 million). Additional liabilities to customers include, in particular, loans taken out in the amount of EUR 1,301 million (31 December 2019: EUR 1,638 million) and term and time deposits in the amount of EUR 1,792 million (31 December 2019: EUR 869 million). As at 31 December 2019, there were still liabilities of EUR 13,057 million from securities repurchase agreements (as seller) which matured as scheduled in the fiscal year.

The remaining maturities of the liabilities with agreed maturity or notice period are as follows:

	31.12.2020 in EUR million	31.12.2019 in EUR million
Up to three months	3,386	12,145
More than three months and up to one year	4,208	2,816
More than one year and up to five years	13,135	15,519
More than five years	12,670	10,413
Total	**33,399**	**40,893**

The decline in liabilities with a maturity of up to three months is due mainly to securities repurchase agreements maturing as scheduled.

The rise in liabilities with a maturity of more than three months and up to one year is mainly attributable to transfers out of the maturity range more than one year and up to five years.

The increase in liabilities with a maturity of more than five years mainly resulted from new funding obtained via the FMS.

Securitised liabilities

	31.12.2020 in EUR million	31.12.2019 in EUR million
a) Debt instruments issued	40,175	55,890
b) Other securitised liabilities	41,990	25,043
Total	**82,165**	**80,933**
Including: to affiliated companies	0	0
Including: to other long-term equity investments	0	0
Amounts due in the following year	56,688	51,287
Including: Debt instruments issued	14,698	26,244

Securitised liabilities comprise debt instruments issued in the amount of EUR 40,175 million (31 December 2019: EUR 55,890 million), European commercial paper issued in the amount of EUR 28,687 million (31 December 2019: EUR 25,043 million) and, for the first time in fiscal year 2020, US commercial paper issued in the amount of EUR 13,303 million.

The nominal value of the securitised liabilities is EUR 82,020 million (31 December 2019: EUR 80,731 million).

The remaining maturities of the other securitised liabilities are as follows:

	31.12.2020 in EUR million	31.12.2019 in EUR million
Up to three months	25,165	16,174
More than three months and up to one year	16,825	8,869
More than one year and up to five years	0	0
More than five years	0	0
Total	**41,990**	**25,043**

Other liabilities

Other liabilities mainly include currency translation adjustments of EUR 1,031 million from off-balance sheet transactions denominated in foreign currencies (31 December 2019: EUR 406 million), which are recognised in the context of special coverage under Section 340h HGB, and liabilities of EUR 244 million from derivatives (31 December 2019: EUR 227 million).

Deferred income

	31.12.2020 in EUR million	31.12.2019 in EUR million
Unamortised payments received for derivatives	17,039	17,615
Issuing business / loans taken out	654	629
Lending business (discount on receivables)	32	39
Other	4	5
Total	**17,729**	**18,288**

The unamortised payments received for derivatives result mainly from payments received by FMS-WM for the market values of derivatives recognised by the transferors as at the transfer date in 2010. The item also contains unamortised payments received by FMS-WM to acquire interest rate derivatives in connection with the wind-up task related to the DEPFA Group. The decrease in the reporting period is attributable to ongoing amortisation and foreign currency effects.

The increase in deferred income resulting from issuing business / loans taken out is attributable to premiums associated with the funding obtained from the FMS. Ongoing amortisation partially compensated for this.

Deferred income from the lending business includes deferred payments received by FMS-WM mainly at the transfer date in 2010 for hedge adjustments of the hedged items (receivables) taken over from the transferring legal entities.

Provisions

	31.12.2020 in EUR million	31.12.2019 in EUR million
Provision for taxes	3	19
Other provisions	267	322
Including provisions for expected losses	253	306
Total	270	341

Provisions for expected losses consist mainly of provisions for expected losses for stand-alone derivatives of EUR 140 million (31 December 2019: EUR 149 million) and for valuation unit ineffectiveness under Section 254 HGB of EUR 90 million (31 December 2019: EUR 105 million).

Equity

Please see the section entitled *Statement of changes in equity* for notes on the changes in and composition of equity.

Contingent liabilities

FMS-WM discloses potential liabilities under guarantees in the amount of EUR 601 million (31 December 2019: EUR 658 million). This includes obligations arising from CDS (with third parties as counterparties) in the amount of EUR 567 million which are accounted for as financial guarantees (31 December 2019: EUR 600 million), and so called “transfers via guarantee” in the amount of EUR 6 million (31 December 2019: EUR 9 million).

In the case of the risk positions “transferred via guarantee”, the assets guaranteed continue to be accounted for by the transferring legal entity. The guarantees are designed as abstract, directly enforceable, irrevocable and unconditional guarantees.

The exposure to contingent liabilities is measured using the parameters applied in credit risk management (risk analysis and assessment).

Other obligations

Irrevocable loan commitments of EUR 701 million (31 December 2019: EUR 1,916 million) include undrawn liquidity facilities in the amount of EUR 671 million (31 December 2019: EUR 1,004 million), of which EUR 500 million (31 December 2019: EUR 775 million) relates to DEPFA BANK plc.

In connection with the agreement on the “Ersatzdeckungslösung” (substitute cover solution), FMS-WM has pledged to Deutsche Pfandbriefbank AG, Munich to pay out up to EUR 2,995 million to pbb on request. This obligation expired as scheduled on 30 June 2020 (31 December 2019: EUR 881 million).

Other financial obligations

Some of the outsourced services (inter alia FMS-SG, IBM Deutschland GmbH, Ehningen, and DATAGROUP Financial IT Services GmbH, Düsseldorf) are subject to long-term agreements, giving rise to other financial obligations on the part of FMS-WM. These agreements have fixed and variable performance components. An annual contractual volume of around

EUR 85 million to EUR 95 million is expected for 2021 and 2022, of which around 67% is attributable to FMS-SG. The expenses for existing contracts which will continue beyond 2022 are expected to amount to EUR 50 million in 2023 and relate, almost exclusively, to FMS-SG.

FMS-WM has issued its subsidiary Flint Nominees Ltd. which is in liquidation with an undertaking that, in the period up to and including November 2022, it will be enabled to meet its liabilities and other obligations at all times.

Assets pledged as collateral

Apart from the securities sold under repurchase agreements as at 31 December 2020 (see the description under *debt instruments*) in the amount of EUR 7,067 million (31 December 2019: EUR 14,460 million), there are no other assets pledged as collateral for liabilities or contingent liabilities of FMS-WM.

Loans and advances to banks include an amount of EUR 144 million (31 December 2019: EUR 131 million) that has been pledged to a customer as contractually agreed.

Derivative financial instruments

The market values of the unlisted OTC derivatives are determined by means of standard measurement models based on the measurement parameters available in the market.

The tables below show the breakdown of FMS-WM's interest-based and currency-based derivatives and the total return swaps (TRS):

	Nominal values				
	Remaining maturities, 31.12.2020				
in EUR million	< 1 year	1 – 5 years	> 5 years	Total 31.12.2020	Total 31.12.2019
Interest-based transactions	55,504	48,015	94,161	197,680	197,298
TRS	0	3	3,881	3,884	4,229
Currency-based transactions	26,984	4,878	6,589	38,451	29,007
Of which: forward exchange transactions	25,392	0	0	25,392	20,534
Of which: cross currency swaps	1,592	4,878	6,589	13,059	8,473
Total	**82,488**	**52,896**	**104,631**	**240,015**	**230,534**

	Fair values			
	31.12.2020		31.12.2019	
in EUR million	Positive	Negative	Positive	Negative
Interest-based transactions	13,065	–54,180	10,874	–49,398
TRS	1,037	–1,263	1,114	–1,249
Currency-based transactions	689	–1,503	850	–905
Of which: forward exchange transactions	8	–952	85	–330
Of which: cross currency swaps	681	–551	765	–575
Total	**14,791**	**–56,946**	**12,838**	**–51,552**

The book value of these derivatives reported in the prepaid expenses / deferred income item (net amount of the book values recognised in assets and liabilities) totalled EUR –8,970 million as at 31 December 2020 (31 December 2019: EUR –10,342 million). In the other assets / other liabilities item, the net book value of these derivatives in the amount of EUR –907 million is reported (31 December 2019: EUR –209 million).

The portfolio of FMS-WM credit derivatives vis-à-vis third parties is as follows:

	31.12.2020		31.12.2019	
in EUR million	Nominal values	Fair values	Nominal values	Fair values
Secured party CDS	1,371	15	1,476	21
Guarantor CDS	605	–28	645	–32
Total	**1,976**	**–13**	**2,121**	**–11**

Accrued payments for CDS are recognised in prepaid expenses and deferred income. As at 31 December 2020, these prepaid expenses and deferred income netted to EUR 1 million (31 December 2019: EUR 1 million).

As the secured party, FMS-WM acquired CDS vis-à-vis third parties with a nominal volume of EUR 1.5 billion in June and July of fiscal year 2019. These credit derivatives serve to protect against a concrete default risk in the portfolio with a volume of USD 1.2 billion as loan collateral received.

The CDS where FMS-WM is the guarantor are reported under contingent liabilities in the amount of EUR 567 million (31 December 2019: EUR 600 million).

Valuation units

In accordance with Section 254 HGB, FMS-WM aggregates hedged items and hedging instruments into valuation units. FMS-WM utilises the net valuation unit presentation method to account for the valuation units. In particular, the hedged risk concerns the interest rate-induced risk of changes in value (interest rate risk).

Overall, the nominal value of these hedged items is comprised as follows:

Nominal values of the hedged items	31.12.2020 in EUR million	31.12.2019 in EUR million
Assets	35,979	40,264
Liabilities	53,398	63,711
Derivatives	13,094	14,329
Total	**102,471**	**118,304**

As at 31 December 2020, hedged items with a nominal value of EUR 3,915 million (31 December 2019: EUR 4,229 million) were combined with TRS pursuant to IDW RS BFA 1.

Furthermore, hedged items with a nominal value of EUR 999 million (31 December 2019: EUR 1,092 million) were combined with CDS pursuant to IDW RS BFA 1.

The following overviews contain the nominal values, broken down by their maturities, of assets, liabilities and derivatives that are designated as hedged items in valuation units as at 31 December 2020 and whose countervailing changes in value or cash flows can be expected to balance in the future.

Assets	31.12.2020 in EUR million	31.12.2019 in EUR million
Up to three months	326	176
More than three months and up to one year	283	1,295
More than one year and up to five years	3,417	3,683
More than five years	31,953	35,110
Assets	**35,979**	**40,264**

Liabilities	31.12.2020 in EUR million	31.12.2019 in EUR million
Up to three months	1,706	9,721
More than three months and up to one year	12,958	9,130
More than one year and up to five years	25,519	33,540
More than five years	13,215	11,320
Liabilities	**53,398**	**63,711**

Derivatives	31.12.2020 in EUR million	31.12.2019 in EUR million
Up to three months	103	408
More than three months and up to one year	866	850
More than one year and up to five years	2,101	2,463
More than five years	10,024	10,608
Derivatives	**13,094**	**14,329**

The net valuation presentation method does not require presentation of positive and negative changes in value (expenses and income) of the hedged risk in micro valuation units. Were the gross hedge presentation method to be applied, net income of EUR 35,677 million (31 December 2019: EUR 29,126 million) would arise on the basis of the current measurements.

The interest rate risk-related changes in the value of the hedged items and hedging instruments arising from valuation units with negative ineffectiveness (interest rate risk hedge) can be seen in the following overview:

31.12.2020 in EUR million	Negative change in value (absolute figure)	Positive change in value (absolute figure)
Hedged items	1,113	17,426
Hedging instruments	17,504	1,101
Total	**18,617**	**18,527**
Of which: not recognised	18,527	0
Of which: recognised as a provision for expected losses	90	0

Foreign-currency items

Total assets in foreign currencies as at 31 December 2020 amount to EUR 54,282 million (31 December 2019: EUR 59,693 million). Liabilities in foreign currencies as at 31 December 2020 amount to EUR 65,254 million (31 December 2019: EUR 67,736 million).

NOTES TO THE INCOME STATEMENT

Net interest income

	01.01.– 31.12.2020 in EUR million	01.01.– 31.12.2019 in EUR million
Interest income	5,757	6,744
Lending and money market transactions Including: negative interest deducted EUR 393 million (previous year: EUR 247 million)	4,073	4,770
Fixed income securities and registered government debt	1,684	1,974
Interest expenses	5,417	6,419
Lending and money market transactions Including: positive interest deducted EUR 407 million (previous year: EUR 305 million)	4,229	4,644
Securitised liabilities	555	952
Loans taken out	–99	–8
Other	732	831
Total	340	325

The year-on-year increase in net interest income is mainly attributable to funding on more favourable terms due to the borrowings via the FMS as well as the acquisition of exposures within the scope of the portfolio extensions in fiscal year 2019 and the related margins.

Net interest income includes one-off effects in the amount of EUR 17 million (previous year: EUR 19 million) resulting from compensation payments received for contractual adjustments to existing credit support annexes for derivatives.

Interest income includes EUR 3,871 million (previous year: EUR 4,093 million) in interest from derivative financial instruments and EUR 393 million (previous year: EUR 247 million) in negative interest on assets (reduction of interest income). As last year, Western Europe and the United States account for most of the interest income. Derivative financial instruments account for EUR 4,513 million (previous year: EUR 4,620 million) and negative interest on liabilities for EUR 407 million (previous year: EUR 305 million) of interest expense (reduction of interest expense). The interest expenses from loans taken out also include the amortisation of premiums in relation to the funding obtained via the FMS, which has reduced interest expenses.

The Other item under interest expenses mainly includes amortisation of differences in cases where the acquisition costs of risk positions exceeds their nominal value.

Current income

	01.01.– 31.12.2020 in EUR million	01.01.– 31.12.2019 in EUR million
Current income from		
Other long-term equity investments	0	0
Shares in affiliated companies	27	49
Total	27	49

Of the current income of EUR 27 million from shares in affiliated companies, EUR 24 million is attributable to WH-Erste KG. The prior-year income resulted mainly from a dividend payment by the subsidiary Flint Nominees Ltd. in the amount of EUR 49 million.

Income from profit transfer

In the fiscal year, FMS-WM collected the annual result of FMS-SG in the amount of EUR 3 million (previous year: EUR 1 million) due to the existing profit transfer agreement with FMS-SG.

Net commission income

	01.01.– 31.12.2020 in EUR million	01.01.– 31.12.2019 in EUR million
Commission income	11	13
Derivatives business	8	8
Lending business	3	4
Other	0	1
Commission expenses	24	18
Derivatives business	18	12
Securities and issuing business	5	5
Other	1	1
Total		
Gesamt	–13	–5

The decline in net commission income is due, on the one hand, to the unwinding of the portfolio and the resulting decrease in commission income from lending business and, on the other hand, to the increased expenses from derivatives business registered in the reporting period. These result mainly from the hedging of risk positions in the portfolio using credit derivatives. Income from derivatives business is mainly attributable to Europe.

Other operating income and expenses

Other operating income of EUR 63 million (previous year: EUR 9 million) mainly includes income of EUR 45 million from the accrual of WH-Erste KG to FMS-WM in fiscal year 2020 and income of EUR 9 million from foreign currency translation (previous year: expenses of EUR 7 million from foreign currency translation). Other operating expenses of EUR 6 million (previous year: EUR 11 million; including expenses from foreign currency translation) mainly include portfolio-rated expenses and transaction costs.

General and administrative expenses

	01.01.–31.12.2020 in EUR million	01.01.–31.12.2019 in EUR million
Personnel expenses	16	19
Other administrative expenses	118	119
Total	134	138

Personnel expenses for the staff employed by FMS-WM in the reporting period amount to EUR 16 million (previous year: EUR 19 million).

The other administrative expenses mainly result from expenses incurred in the context of service outsourcing (portfolio servicing, administrative and back office activities, IT services, and accounting services).

Including all active service providers, expenses for servicing the portfolio totalled EUR 92 million (previous year: EUR 94 million). Other administrative expenses amounted to EUR 26 million in the reporting period (previous year: EUR 25 million).

Depreciation, amortisation and write-downs of intangible and tangible fixed assets

Depreciation and amortisation of intangible and tangible fixed assets amounts to EUR 272 thousand (previous year: EUR 547 thousand).

Income from reversals of write-downs of receivables and certain securities and from the reversal of loan loss provisions

The following income and expenses are reported in this item:

	01.01.–31.12.2020 in EUR million	01.01.–31.12.2019 in EUR million
Net revaluation gain / loss from lending business	155	–282
Net revaluation gain / loss from securities classified as current assets	1	–1
Total	156	–283

The net revaluation gain from lending business is due mainly to the reversal of valuation measures, partly offset by valuation measures taken in the reporting period to cover potential default risks.

Write-downs of and valuation allowances on shares in affiliated companies, other long-term equity investments and securities classified as fixed assets

The following income and expenses were recognised in this item:

	01.01.–31.12.2020 in EUR million	01.01.–31.12.2019 in EUR million
Net gain / loss on sale of securities incl. net gain / loss from derivatives	–336	235
Net revaluation gain / loss from securities	–90	27
Net revaluation gain / loss from derivatives	15	44
Total	–411	306

The net loss on the sale of securities incl. the net gain / loss from derivatives is due mainly to unwinding and restructuring measures to reduce concentration and inflation risks in the Public Sector segment and to a lesser extent to the closing-out of derivatives and the sale of securities in the Infrastructure and Structured Products segments. The unwinding and restructuring measures in the Public Sector segment include a one-off effect of EUR –201 million in connection with the restructuring of an exposure to reduce complexity, which will contrast with countervailing effects in future periods.

The net revaluation loss from securities is mainly the result of applying the strict lower-of-cost-or-market principle in the case of sufficiently specific unwinding measures in the Public Sector segment as well as valuation measures taken in the reporting period to cover potential default risks. The net revaluation gain from derivatives mainly includes net reversals of provisions for expected losses for valuation unit ineffectiveness under Section 254 HGB.

Taxes on income

Taxes on income are attributable to corporate income tax, the solidarity surcharge, trade tax and Italian income taxes. The expenses of EUR 2 million reported under this item in the fiscal year ended mainly result from tax expenses for previous years.

OTHER DISCLOSURES

Auditor's fee

The auditor's fee recognised during the fiscal year in the amount of EUR 2 million (previous year: EUR 2 million) is comprised as follows:

	01.01.–31.12.2020 in EUR million	01.01.–31.12.2019 in EUR million
Audit services	2	2
Other assurance services	0	0
Tax advisory services	0	0
Total	2	2

The expenses shown in the table are gross amounts.

Auditing services relate to the audit of these annual financial statements and the review of the half-yearly financial statements for the period ended 30 June 2020.

Other assurance services in the amount of EUR 29 thousand (previous year: EUR 226 thousand) were incurred in connection with FMS-WM's issuance activities.

Of the expenses recognised in the reporting year, EUR 0 thousand (previous year: EUR 0 thousand) concern tax advisory services.

Proposal for the appropriation of net income / loss

In accordance with Section 13 of the Charter, the Executive Board proposes to the Supervisory Board that the net income for fiscal year 2020 be allocated to retained earnings.

Shareholdings

The following overview shows the shares in affiliated companies of FMS-WM as at 31 December 2020, each of which is based on the company's most recent annual financial statements.

Name and registered office	Share in capital	Of which indirectly	Equity in thousand	Result in thousand	Currency [11]
DEPFA ACS BANK DAC, Dublin	100.00%	100.00%	579,654 [5]	–7,560 [6]	EUR
DEPFA BANK plc, Dublin	100.00%		554,715 [5]	–43,694 [6]	EUR
DEPFA Ireland Holding Ltd., Dublin [10]	100.00%	100.00%	21 [5]	0 [6]	EUR
Flint Nominees Ltd., London [10]	100.00%		11 [3]	–194 [4]	GBP
FMS Wertmanagement Service GmbH, Unterschleißheim	100.00%		30,000 [1]	0 [2, 9]	EUR
Hypo Real Estate Capital Corp., New York	100.00%		53,858 [7]	644 [8]	USD
WH-Erste Grundstücks Verwaltungs GmbH, Munich	100.00%		28 [7]	–26 [8]	EUR

[1] *31 December 2020*
[2] *2020*
[3] *Closing balance sheet as at 1 November 2020*
[4] *1 January 2020 – 1 November 2020*
[5] *31 December 2020, preliminary*
[6] *2020, preliminary*
[7] *31 December 2019*
[8] *2019*
[9] *After profit transfer*
[10] *In liquidation*
[11] *Exchange rates as at 31 December 2020: 1 EUR = 0.89903 GBP*
1 EUR = 1.2271 USD

Corporate bodies of FMS Wertmanagement

Members of the Executive Board

Christoph Müller, CEO, Spokesman of the Executive Board

Carola Falkner, Asset Management & Treasury

Members of the Supervisory Board

Dr. Michael Kemmer (since 6 January 2020)
Chairman of the Supervisory Board (since 6 February 2020)
Diplom-Kaufmann (business administration degree)

Jan Bettink (until 5 January 2020)
Chairman of the Supervisory Board
Bankkaufmann (qualified banker)

Dr. Jutta Dönges
Deputy Chairwoman of the Supervisory Board
Managing Director of Bundesrepublik Deutschland – Finanzagentur GmbH

Rita Geyermann
Deputy Chairwoman of the Supervisory Board
Director, Head of Asset Management at KfW Bankengruppe

Dr. Axel Berger
Auditor and tax adviser

Dr. Tammo Diemer
Managing Director of Bundesrepublik Deutschland – Finanzagentur GmbH

Birgit Dietl-Benzin
Member of the Board of Management of DekaBank Deutsche Girozentrale AöR

Michaela Maria Eder von Grafenstein
Member of the Executive Committee of the Aquila Group
Spokesperson of Kapitalverwaltungsgesellschaft Aquila Capital Investmentgesellschaft

Dr. Holger Horn (since 1 February 2020)
Member of the Board of Management of Münchener Hypothekenbank eG

Loans to members of the corporate bodies

At the reporting date, there were no claims in respect of members of the corporate bodies arising from loans or advances.

Remuneration of the corporate bodies

The members of FMS-WM's Executive Board were paid remuneration of EUR 913 thousand for fiscal year 2020 (previous year: EUR 1,264 thousand). No benefits in kind were paid to the Executive Board in fiscal year 2020 (previous year: EUR 18 thousand). A total of EUR 130 thousand (previous year: EUR 138 thousand) was expended in the reporting period for the pension plans applicable to the members of the Executive Board.

Total remuneration of EUR 185 thousand was paid to the members of FMS-WM's Supervisory Board for fiscal year 2020 (previous year: EUR 203 thousand).

Annual average number of employees

At 31 December 2020, FMS-WM had 104 employees (31 December 2019: 103). The average number of employees in fiscal year 2020 was:

	Women	Men	Total
Employees	40	65	105

Seats held by Executive Board members

In fiscal year 2020, the members of the Executive Board of FMS-WM held the following seats on a supervisory board or other supervisory bodies of large corporations in accordance with Section 340a (4) No. 1 HGB in conjunction with Section 267 (3) HGB.

Members of the Executive Board:

- Christoph Müller:
  Non-executive member of the Board of Directors (Chairman) of DEPFA BANK plc, Dublin, DEPFA ACS BANK DAC, Dublin, and DEPFA International S.A. (Chairman), Luxembourg (until 30 June 2020), (Group offices held).

- Carola Falkner:
  Non-executive member of the Board of Directors of DEPFA BANK plc, Dublin, (Group office held).

REPORT ON POST-BALANCE SHEET DATE EVENTS

In February 2021, the tender process initiated in fiscal year 2020 with a view to selling the shares in DEPFA BANK plc was completed successfully and contractual agreement was reached. The parties agreed not to disclose the purchase price of the transaction. The purchase agreement signed had no effect on the recognition of the shares in DEPFA BANK plc as at 31 December 2020. At the time of preparation of the 2020 annual financial statements of FMS-WM, the transaction is still subject to regulatory and possibly antitrust approval.

After the 2020 fiscal year-end, FMS-WM also sold securities from the Public Sector segment as part of its wind-up task and in doing so realised hidden losses.

FMS-WM still expects to achieve at least a breakeven result from ordinary activities for 2021 as a whole.

RESPONSIBILITY STATEMENT

IN ACCORDANCE WITH SECTION 264 (2) SENTENCE 3 HGB AND SECTION 289 (1) SENTENCE 5 HGB

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of FMS-WM, and the management report includes a fair review of the development and performance of the business and the position of FMS-WM, together with a description of the material opportunities and risks associated with the expected development of FMS-WM.

Munich, 16 March 2021

FMS Wertmanagement
The Executive Board

Christoph Müller

Carola Falkner

INDEPENDENT AUDITOR'S REPORT

To FMS Wertmanagement AöR, München

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Audit Opinions

We have audited the annual financial statements of FMS Wertmanagement AöR, München, which comprise the balance sheet as at 31 December 2020, the statement of profit and loss, cash flow statement and statement of changes in equity for the financial year from 1 January to 31 December 2020 and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of FMS Wertmanagement AöR for the financial year from 1 January to 31 December 2020.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2020 and of its financial performance for the financial year from 1 January to 31 December 2020 in compliance with German Legally Required Accounting Principles, and

- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 Abs. 3 Satz 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1 Adequacy of loan loss provisions in the customer lending business

2 Model-based valuated financial instruments (securities and derivatives)

Our presentation of these key audit matters has been structured in each case as follows:

1 Matter and issue

2 Audit approach and findings

3 Reference to further information

Hereinafter we present the key audit matters:

1 Adequacy of loan loss provisions in the customer lending business

(1) The customer lending business comprises loans and advances to customers, liabilities from guarantees and indemnity agreements as well as irrevocable loan commitments. In the annual financial statements of FMS-WM, receivables from customers amounting to €14.2 billion, liabilities from guarantees and indemnity agreements amounting to €0.6 billion and irrevocable loan commitments amounting to €0.7 billion are reported. In the 2020 financial year, income of € 156.5 million incurred from reversals of write-offs of receivables and certain securities as well as from the reversal of provisions in the lending business. The measurement of provisions for losses on loans and advances to customers is determined in particular by the estimates of the legal representatives with regard to future loan defaults, the structure and quality of the loan portfolios and macroeconomic factors and, where applicable, potential expected sales prices among other factors also with regard to expected effects of the ongoing COVID-19-pandemic on the customer lending business. The amount of the specific valuation allowances on loans and advances to customers corresponds to the difference between the loan amounts still outstanding and the lower value to be attributed to them on the balance sheet date. The amount of the individual provisions for contingent liabilities is based on the risk of utilization. Existing collateral is taken into account. For latent default risks, general valuation allowances and provisions are formed on the basis of the expected loss, which is determined on the basis of statistical data. In recognizing the general allowance, FMS-WM has for the first time recognized a so-called market uncertainty factor ("Factor C"). This factor exists for latent counterparty risks as well as negative counterparty-specific developments that have already occurred but have not yet become known to FMS-WM and serves to take into account the existing uncertainties as a result of the COVID-19-pandemic. The value adjustments in the customer lending business are of great importance for the assets and earnings situation of FMS-WM on the one hand and on the other hand involve considerable discretionary leeway for the legal representatives. In addition, the valuation parameters applied, which are subject to significant uncertainties also due to the effects of the COVID-19-pandemic, have a significant influence on the formation and amount of any necessary value adjustments. Against this background, this matter was of particular importance in the context of our audit.

(2) As part of our audit, we first assessed the appropriateness of the design of the controls in the relevant internal control system of FMS-WM and tested the functionality of the controls. We have taken into account the business organization, the IT systems and the relevant valuation models. In addition, we assessed the valuation in the customer lending business, including the appropriateness of estimated values, on the basis of random samples of credit exposures. When selecting the credit exposures to be reviewed, we also took off-balance sheet risk positions into account. Among other things, we assessed the available documents of FMS-WM with regard to the economic circumstances and the recoverability of the corresponding collateral. In the case of property collateral for which FMS-WM has submitted valuations to us, we have obtained an understanding of the underlying source data, the valuation parameters applied and the assumptions made, have critically evaluated these and assessed whether they lie within a reasonable range. Furthermore, we have assessed the calculation methods applied by FMS-WM as well as the underlying assumptions and parameters in order to assess the risk provisions determined. In particular, we also evaluated the executive directors' estimate of the effect of

the COVID-19-pandemic on the economic circumstances of the borrowers and the recoverability of the corresponding collateral, and assessed how this was taken into account in the valuation of the loans to customers. We questioned the necessity of the recognition of the market uncertainty factor and assessed the determination of the amount. On the basis of the audit procedures we performed, we satisfied ourselves overall of the appropriateness of the assumptions made by the legal representatives when reviewing the recoverability of the loan portfolio and of the appropriateness and effectiveness of the processes implemented by FMS-WM.

3 The information provided by FMS-WM on customer lending business is contained in the sections "Accounting policies" and "Notes to the balance sheet" of the Notes.

2 Model-based valuated financial instruments (securities and derivatives)

1 For the purposes of accounting or presentation in the notes, FMS-WM determines the fair value for its financial instruments. If no active market or observable prices of comparable instruments are available, the fair value is determined using the company's own valuation models. Bonds and other fixed-income securities amounted to €58.7 billion at the balance sheet date. Of this amount, €10.3 billion relates to unlisted bonds and other fixed-income securities for which no observable market prices are available and whose fair values are determined based on our own valuation models. Derivatives in the amount of €242.0 billion (nominal value) respectively € 14.8 billion (positive fair value) and € 57.0 billion (negative fair value) are held at the balance sheet date. These consist exclusively of unlisted OTC derivatives, the fair value of which is determined using the company's own valuation models. The key parameters of the valuation models used by FMS-WM are based on estimates that involve uncertainties and discretion. As a result, there are increased valuation uncertainties and valuation ranges for the fair values of these financial instruments. This applies in particular to complex financial instruments and the use of unobservable measurement parameters. Against this background and due to the potential effects of the existing valuation uncertainties on the annual financial statements, the determination of the fair value of model-valued securities and derivatives was of particular importance in the context of our audit.

2 As part of our audit, we analyzed in particular the model-valued securities and derivatives, with the focus on positions with increased valuation uncertainties. With the involvement of our internal valuation specialists, we assessed the adequacy of the valuation models used, the adequacy of the data supply procedures and the adequacy and effectiveness of the relevant controls of the internal control system of FMS-WM for the valuation of the securities and derivatives concerned. The subject of these controls is the independent

verification of the price sources and valuation parameters used and the independent validation of the valuation models. In addition, we carried out an own, independent and risk-oriented revaluation for selected illiquid financial instruments as of the balance sheet date and compared the results with the values determined by FMS-WM. The fair values of securities and derivatives determined based on the valuation methods and assumptions applied by the legal representatives are within reasonable ranges in our opinion.

3 The information provided by FMS-WM on the model-based valuation of financial instruments (securities and derivatives) is contained in the sections “Accounting Policies” and “Notes to the Balance Sheet” of the Notes.

Other Information

The executive directors are responsible for the other information. The other information comprises the annual report – excluding cross-references to external information – with the exception of the audited annual financial statements, the audited management report and our auditor's report.

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

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

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the supervisory board for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the supervisory board on 1 April 2020. We were engaged by the supervisory board on 1 April 2020. We have been the auditor of the FMS Wertmanagement AöR, München without interruption since the financial year 2018.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Stefan Palm.

Munich, 16 March 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Stefan Palm	Axel Menge
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]