FMS WERTMANAGEMENT CONTINUES TO SUCCESSFULLY WIND UP ITS PORTFOLIO DESPITE THE CHALLENGING MARKET ENVIRONMENT

Carola Falkner, Member of the Executive Board; Christoph Müller, Spokesman of the Executive Board

Despite the challenging market environment dominated by the COVID-19 pandemic, FMS Wertmanagement (FMS-WM) closed fiscal 2020 with a positive result for the year.

The *result from ordinary activities* for fiscal year 2020 came to EUR 25 million and, like the prior-year figure, was heavily impacted by one-off effects. At EUR –255 million, the balance of risk provisions and net income from investments had a sharply negative impact on the result in fiscal 2020 compared with the previous year (previous year: EUR 23 million). This was mainly due to a one-off effect in the amount of EUR 201 million, which arose in connection with the complexity-reducing restructuring of a risk position in the Public Sector segment and which will generate countervailing effects in future periods. FMS-WM took account of the possible effects of the COVID-19 pandemic on the portfolio and maintained its conservative approach to assessing risks in the portfolio in fiscal year 2020.

The nominal value of FMS-WM's portfolio declined by a total of EUR 7.7 billion in 2020. EUR 2.5 billion of this is attributable to currency effects, in particular the US dollar and pound sterling being weaker year-on-year. FMS-WM was thus able to achieve its wind-up target for fiscal year 2020 despite the difficult market environment.

As in previous years, net retained profits reported in the amount of EUR 23 million are to be accumulated rather than distributed. FMS-WM now reports equity of EUR 1.8 billion. Together with risk provisions, this serves as a buffer for any risks that might still arise during the further unwinding of the portfolio.

FMS-WM continues to focus on its wind-up task. This is crucially dependent on the employees of FMS-WM, FMS Wertmanagement Service GmbH (FMS-SG) and the DEFPA Group, who have been ensuring operational stability since the beginning of the COVID-19 pandemic, showing great commitment and flexibility while working almost entirely in remote mode.

FMS-WM's statutory auditor audited the annual financial statements as at 31 December 2020 and the management report for fiscal year 2020 and issued an unqualified auditors' report.

At its meeting on 1 April 2021, the Supervisory Board approved the annual financial statements as prepared by the Executive Board of FMS-WM.

Unwinding of the portfolio and sale of the shares in DEPFA BANK plc

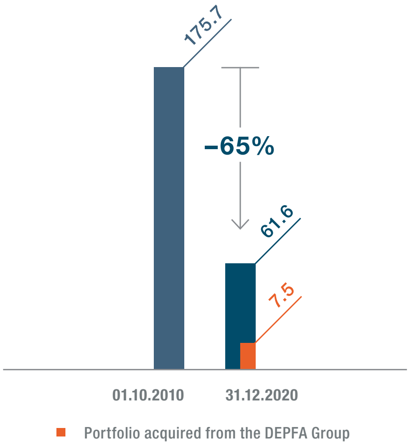
FMS-WM is tasked with unwinding the portfolio transferred to it in a way that maximises value. Since the portfolio was transferred from the HRE Group on 1 October 2010, its original nominal value of EUR 175.7 billion has been reduced to EUR 61.6 billion as at the end of 2020. Adjusted for the assets originally acquired from DEPFA Group companies in fiscal years 2016 to 2020 with a total nominal value of EUR 11.8 billion, the portfolio has been reduced by around 70%.

The number of counterparties in FMS-WM's portfolio fell by 79% to 683 since its transfer. Originally, there were 3,191 counterparties in the portfolio. The number of remaining exposures has dropped by 80% since 1 October 2010 to 1,405.

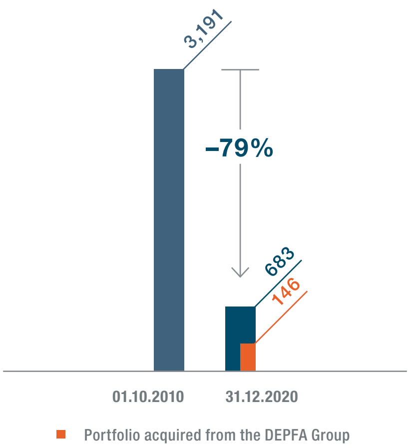
Since the portfolio was taken over, the number of countries in which FMS-WM still holds exposures has been reduced from 66 to 38 countries (see chart on page 4 and 5). There are still clear concentrations in the United Kingdom, Italy and the USA, which together accounted for around 72% of the nominal value of the portfolio as at 31 December 2020. Since 2010, FMS-WM has reduced the currencies in the portfolio from 18 to 12 at the end of 2020.

FMS-WM OVERALL PORTFOLIO

DEVELOPMENT OF THE NOMINAL VOLUME (IN EUR BILLION)

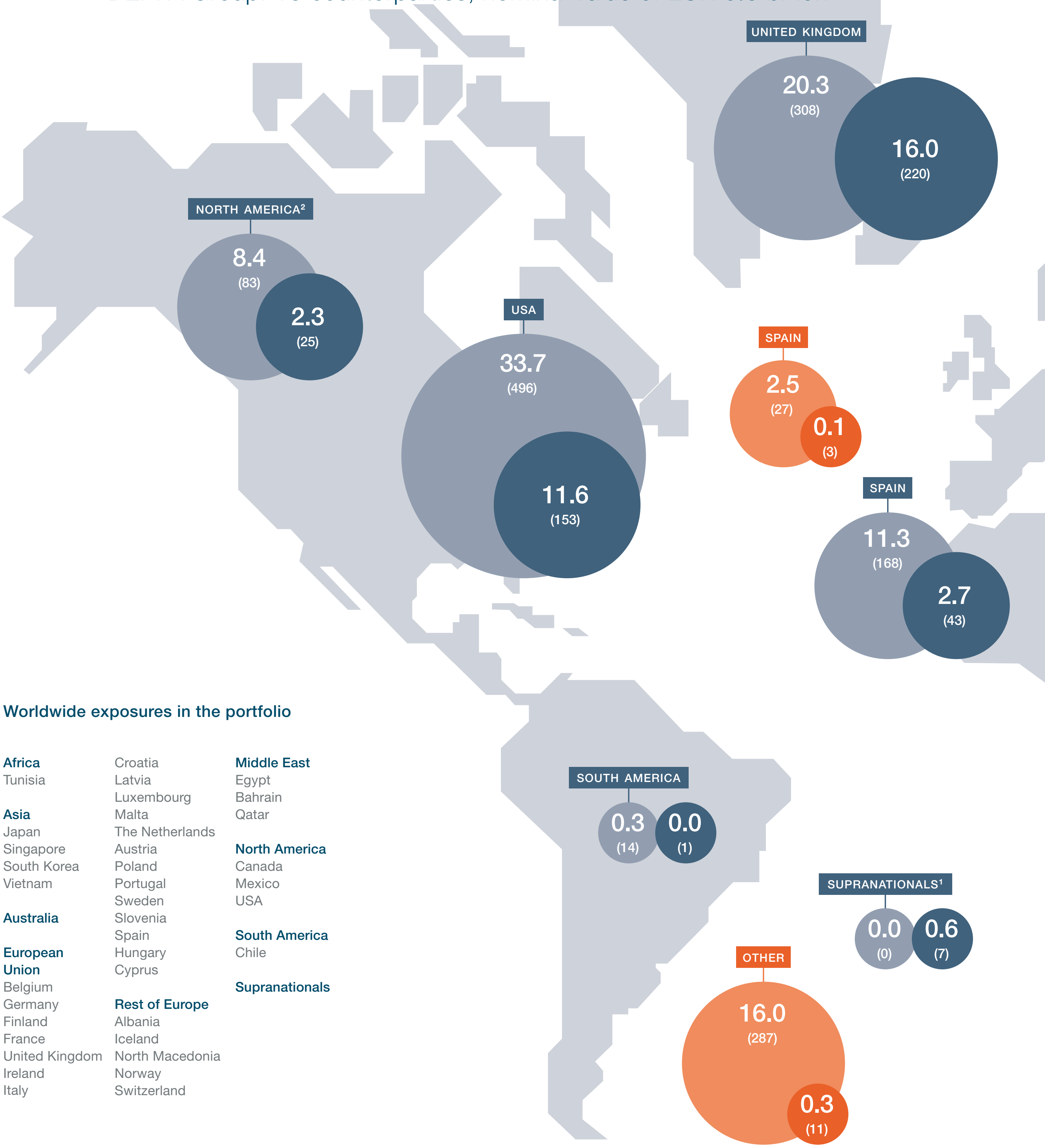


DEVELOPMENT OF THE NUMBER OF COUNTERPARTIES



The portfolio

FMS-WM: 683 counterparties, nominal value of EUR 61.6 billion in 38 countries [1]
DEPFA Group: 18 counterparties, nominal value of EUR 0.6 billion



Worldwide exposures in the portfolio

Africa
Tunisia

Asia
Japan
Singapore
South Korea
Vietnam

Australia

European Union
Belgium
Germany
Finland
France
United Kingdom
Ireland
Italy
Croatia
Latvia
Luxembourg
Malta
The Netherlands
Austria
Poland
Portugal
Sweden
Slovenia
Spain
Hungary
Cyprus

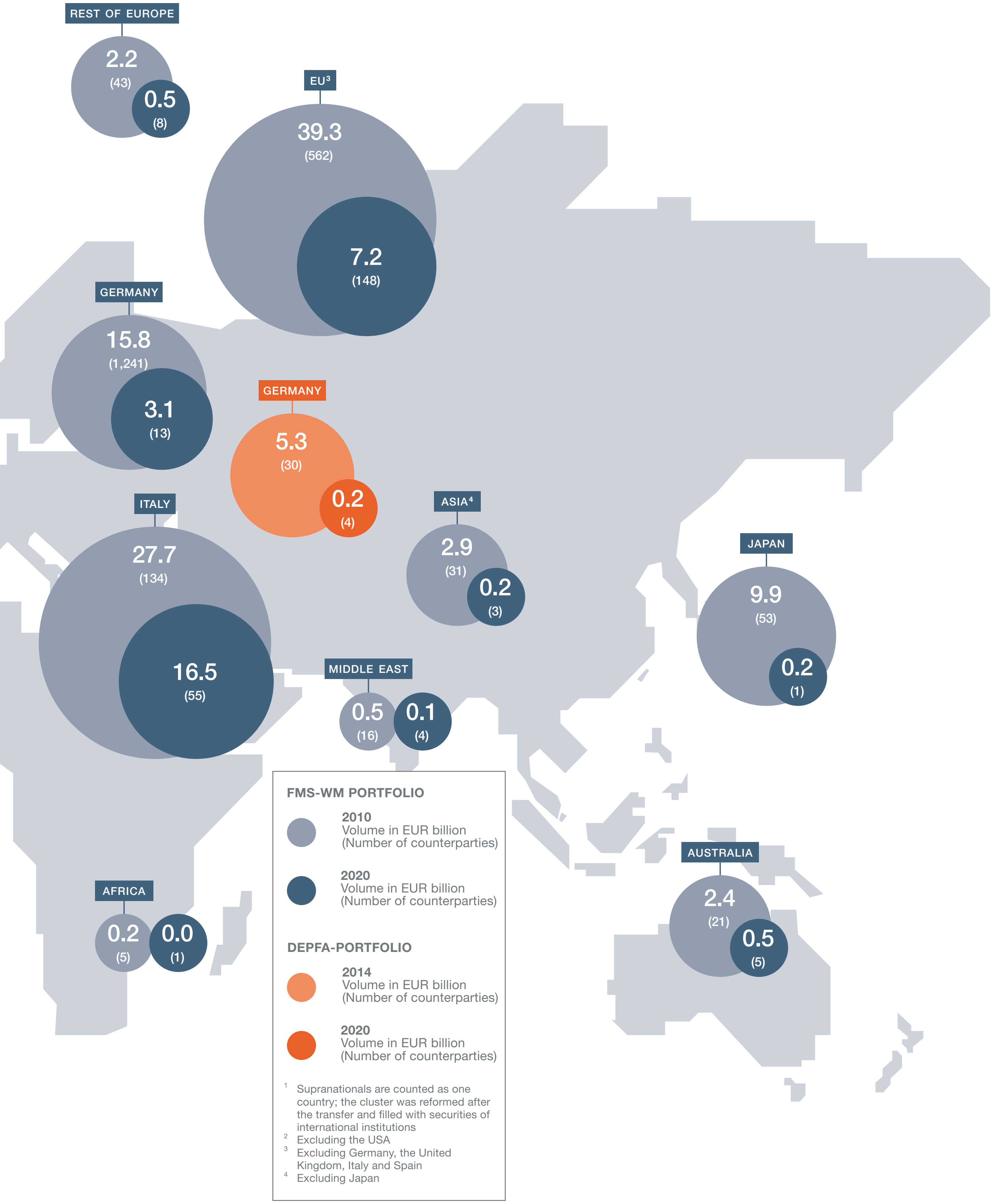
Rest of Europe
Albania
Iceland
North Macedonia
Norway
Switzerland

Middle East
Egypt
Bahrain
Qatar

North America
Canada
Mexico
USA

South America
Chile

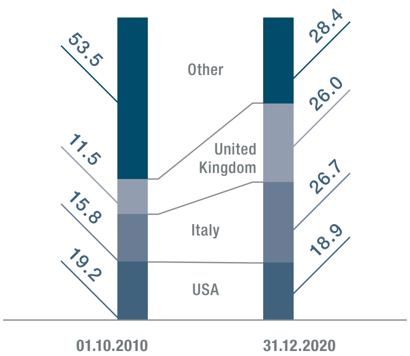
Supranationals



[1] Supranationals are counted as one country; the cluster was reformed after the transfer and filled with securities of international institutions
[2] Excluding the USA
[3] Excluding Germany, the United Kingdom, Italy and Spain
[4] Excluding Japan

PORTFOLIO DISTRIBUTION BY COUNTRY

(IN % OF NOMINAL VOLUME)



Upon acquisition in 2010, the portfolio had unusually high concentrations of risk. Moreover, the exposures are usually part of asset swap packages in which they are attached to derivatives that are used to hedge interest rate, inflation or currency risk. If the exposures were sold prematurely, those derivatives would have to be closed out ahead of the maturity date, possibly causing heavy losses.

Despite the challenging market environment, in fiscal year 2020 FMS-WM wound up parts of these asset swap packages or reduced their complexity through restructuring measures in order to limit any further increase in the concentrations of risk.

In addition to the concentrations, the high proportion of illiquid exposures, some of them with very long maturities, also continues to pose a particular challenge to FMS-WM in its wind-up activities. These include some very special, now largely exotic products dating back to before the financial crisis for which there is currently very limited demand. The still very high negative balance of hidden losses and hidden reserves for securities and derivatives in the amount of EUR 14.9 billion continues to show that selling all exposures immediately, while at the same time closing out the derivatives would only be possible at a considerable loss.

In fiscal 2020, FMS-WM continued to reduce the complexity of its portfolio, for example by reducing the number of countries in which FMS-WM still holds exposures by four. The aim of reducing complexity is to further simplify what currently is a portfolio that is very complex to manage, which then would also further simplify accounting and mapping it in the IT system.

In the *"Structured Products"* portfolio segment, FMS-WM's holdings included four structured bonds based on government-guaranteed US student loans totalling USD 197 million. These were illiquid asset-backed security (ABS) structures characterised by a particularly high degree of complexity and carrying repayment options. Within a period of six months, FMS-WM was able to sell all four bonds to the master trust at a price above the indicative market value.

Progress in reducing portfolio complexity

Further successes were achieved in unwinding the portfolio in the *"Infrastructure"* segment. At the end of 2020, following several months of negotiations, FMS-WM exited a long-dated exposure relating to a French toll road ahead of schedule, thereby making a significant contribution to reducing the traffic-dependent risk in the portfolio. In addition, firm negotiation enabled FMW-WM to carry out the sale of its share of the financing for two Spanish solar farm operators at attractive terms in fiscal year 2020.

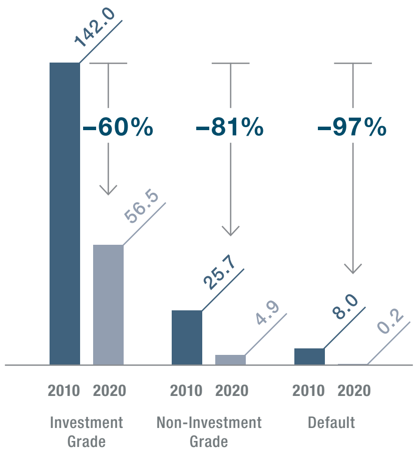
In the case of *customer derivatives*, two complex and high-maintenance FX structured customer derivatives were closed out in 2020. It was thus possible to settle the legal dispute with the customers that had been pending in relation to the customer derivatives for several years.

In addition, six customer derivatives with small towns in the USA maturing between 2028 and 2040 that were both illiquid and complex to manage were closed out successfully at terms favourable to FMS-WM despite the uncertainties in connection with the COVID-19 pandemic.

Since March 2020, the COVID-19 pandemic has been impacting on economic performance worldwide, which has also led to rating downgrades in FMS-WM's portfolio. Nevertheless, the portfolio has not been affected by a sharp rise in credit losses or necessary deferred-payment measures. At 92%, the percentage of investment grade financing remains at a high level. The majority of the borrowers and issuers of securities in FMS-WM's portfolio are state and regional governments, municipalities, public law entities and semi-public companies. Furthermore, most of the project financing still in the portfolio is not in the sectors negatively affected by the COVID-19 pandemic.

DEVELOPMENT OF THE FMS-WM PORTFOLIO'S RATING DISTRIBUTION

(NOMINAL VOLUME IN EUR BILLION)

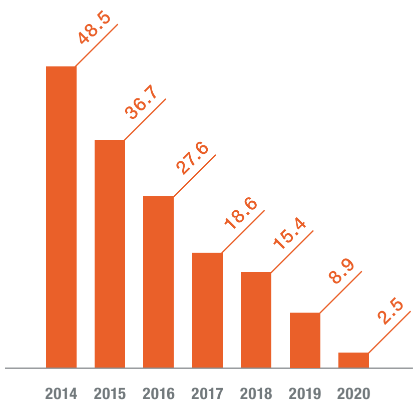


By the end of 2020, FMS-WM was able to use all of the value levers identified for *winding up the DEPFA Group acquired in 2014 in a way that maximises value*.

By selling debt instruments issued by DEPFA Group companies and purchased on the market to those companies and in return acquiring assets with a nominal value of EUR 11.8 billion from DEPFA Group companies, FMS-WM made considerable headway in unwinding the portfolios, including the derivatives portfolio, and thus reducing the total assets of DEPFA Group companies. In parallel with the sale process initiated for the DEPFA Group in the summer of 2020, substantial progress was made in particular on winding up the derivatives portfolio in a way that preserves value. The various wind-up activities have enabled a significant reduction of around 94% in the consolidated total assets of DEPFA BANK plc, from approximately EUR 49 billion at the acquisition date in 2014 to under EUR 3 billion as at 31 December 2020.

TOTAL ASSETS, DEPFA GROUP

(IN EUR BILLION AT YEAR-END)



The DEPFA Group's funding structure was also optimised since having been taken over by FMS-WM. Existing termination rights were used to terminate expensive funding instruments held by the DEPFA Group with third parties and in return provide more cost-effective funding through FMS-WM.

Finally, the organisational structure of the DEPFA Group was streamlined significantly by closing international branch offices, affiliates and licensed subsidiaries, and synergies with FMS-WM and FMS-SG were leveraged. This led to a continuous reduction in costs in the DEPFA Group. The Irish DEPFA Group's last international affiliate, DEPFA International S.A. in Luxembourg, was liquidated in fiscal year 2020.

DEPFA Group wind-up was the favourable option

On 15 February 2021, FMS-WM entered into an agreement with BAWAG P.S.K. AG for the sale of the 100% stake in DEPFA BANK plc. The sale brings the broad tender process launched by FMS-WM last summer to a successful close. The transaction is still subject to approval by supervisory and possibly antitrust authorities.

Since the DEPFA Group was taken over, the results achieved by FMS-WM have exceeded its own expectations by far. The positive effects of the market purchase of hybrid capital bonds issued by DEPFA Group companies and the dividend payment of EUR 150 million disbursed in December 2020 underscore the success of the wind-up strategy. The EUR 377 million contribution to earnings from hybrid capital bonds alone was enough to more than offset the initial investments by the end of 2020. In addition, the assets acquired from the DEPFA Group's portfolio increase FMS-WM's interest income.

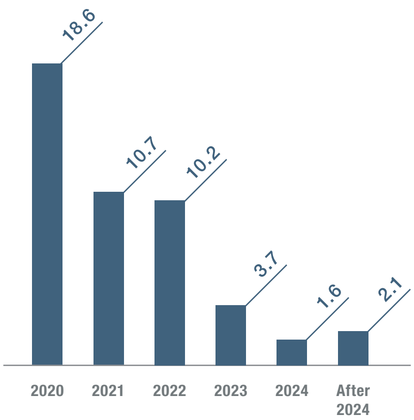
The result achieved confirmed that *the wind-up of the DEPFA Group* by FMS-WM was the favourable option compared with the privatisation that was not carried out in 2014.

Cost-effective funding

FMS-WM continues to hold the *highest ratings* from rating agencies Standard & Poor's and Moody's due to the loss compensation obligation contained in the Charter and the explicit direct guarantee from the German Financial Market Stabilisation Fund (FMS).

MATURITIES OF OUTSTANDING EUR CAPITAL MARKET ISSUES

(EQUIVALENT VALUE IN EUR BILLION)



Since January 2019, longer-term EUR-denominated funding of FMS-WM has been carried out by borrowing via the FMS. In fiscal year 2020, FMS-WM drew the funding of EUR 30 billion available through the FMS. The funding facility available via the FMS was increased from EUR 30 billion to EUR 60 billion at the end of 2020. FMS-WM already obtained EUR 8.7 billion in funding via the FMS in the first quarter of 2021.

FMS-WM itself continues to ensure long-term funding in foreign currencies (particularly in USD and GBP) and short-term money market funding.

In fiscal year 2020, FMS-WM successfully switched USD-denominated money market funding to a *US commercial paper programme*. This measure further reduced operating effort and the related costs. The programme received the highest credit rating from rating agencies and comprised a volume of USD 16.3 billion on 31 December 2020.

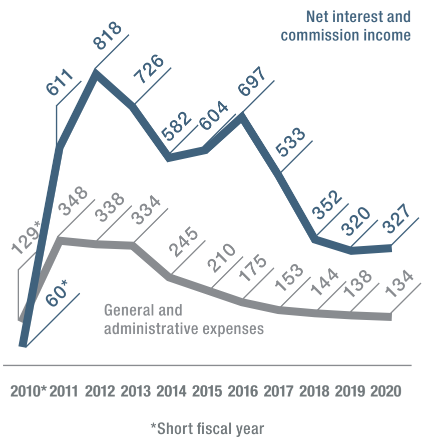
In the context of the revision of reference interest rates for floating-rate financial instruments *("benchmark reform")*, FMS-WM launched the "Post-IBOR" project in January 2019 to systematically analyse and prepare for the the economic and legal challenges posed by the benchmark reform. In 2020, activities focused on adjusting the discounting for EUR collateral in FMS-WM's bilateral derivatives business and on managing this process for derivatives in derivatives clearing at Eurex Clearing AG via the counterparty Federal Republic of Germany, represented by the Finance Agency. In addition, necessary adjustments were made, e. g. to issue prospectuses. The existing portfolio is continuously analysed with regard to the implications and any need for action. Furthermore, technical solutions to map new market standards as well as process options for transitioning the existing business to the new reference interest rates are defined.

Portfolio management

General and administrative expenses declined by 3% year-on-year to EUR 134 million due in part to savings in portfolio management.

NET INTEREST AND COMMISSION INCOME VS. ADMINISTRATIVE COSTS

(IN EUR MILLION)



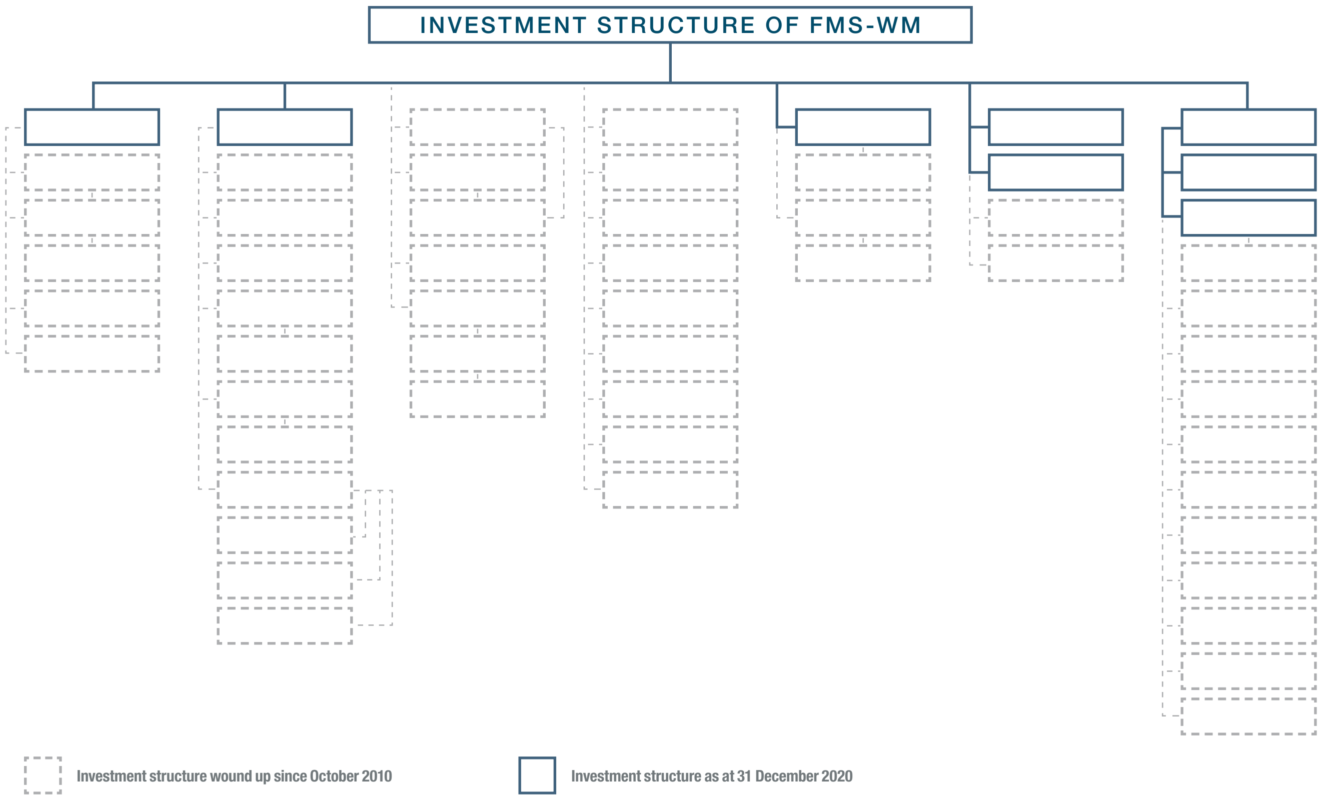
Net interest and commission income was up year-on-year to EUR 327 million (previous year: EUR 320 million) while income from shares in affiliated companies was down to EUR 27 million (previous year: EUR 49 million).

As in the previous year, general and administrative expenses were well below current income from the portfolio.

In fiscal year 2020, further measures were implemented to adapt FMS-WM's operating model. The aim remains to reduce the complexity of the portfolio, thereby enabling risk-related and administrative expenses under an adapted operating model to be cut significantly over the period of the wind-up and the options available for the portfolio's further management to be extended.

In the *Commercial Real Estate* segment, there were still five loans with a nominal value of EUR 0.3 billion as at 31 December 2020. The IT systems required for this segment can now be deactivated and cost savings therefore made. In addition, servicing processes were simplified in that the remaining CRE exposures are now managed within the Infrastructure segment.

In fiscal year 2020, FMS-WM also initiated a public tender procedure for IT outsourcing arrangements. As the portfolio is progressively unwound, it is necessary to have more flexible IT costs and transition to a more dynamic and agile IT operating model. FMS-WM aims to reorganise IT outsourcing arrangements, taking into account viable cuts in services, cloud services where applicable and the possibility of reducing administrative expenses and making them more flexible. This is also helped by further simplifying the application landscape. The contract is to



be awarded to a service provider that ensures the provision, operation and management of IT infrastructure and IT applications to enable FMS-WM and FMS-SG to operate smoothly. According to FMS-WM's schedule, the tender procedure is set to be completed by October 2021.

Also in fiscal year 2020, the measures to *simplify corporate management and optimise the organisational structure* of FMS-WM and FMS-SG were worked out in greater detail and the work to implement them began. This includes, for example, the work to discontinue operations at the FMS-SG branch in New York by the end of 2022, with its final legal closure taking place by mid-2023. The underlying closure plan provides for servicing activities in relation to the US portfolio to be gradually discontinued or transferred to the other FMS-SG sites in Dublin and Unterschleißheim. The activities performed by the finance team in New York, for example, will be terminated as early as 2021 and the remaining tasks transferred to the site in Unterschleißheim.

Since FMS-SG was established, its workforce has fallen by more than a third compared with that when its recruitment drive was completed. In line with the reduction in the number of Executive Board members at FMS-WM from three to two in 2019, the Board of Management of FMS-SG will also be trimmed to two people in 2021.

The progressive wind-up of the portfolio also entails *unwinding the investment structures taken over from the HRE Group* and thus simplifying FMS-WM's organisational structure. FMS-WM originally took over 24 equity investments on 1 October 2010. Due to various rescue acquisitions and restructurings, and the acquisition of the DEPFA Group, FMS-WM has been directly or indirectly invested in a total of 56 companies in different jurisdictions since it was established, mostly as a majority owner. In fiscal year 2020, the number of equity investments was further reduced significantly, from 16 to eight. For example, the assets of WH-Erste Grundstücks GmbH & Co. KG ("WH-Erste KG"), a German investment company for commercial real estate, accrued to FMS-WM, with FMS-WM realising hidden reserves of EUR 45 million. This was preceded in 2019 by the sale of a plot of land, where WH-Erste KG and FMS-WM ultimately implemented their value-maximising strategy successfully after years of negotiations.

In addition, three UK subsidiaries of Flint Nominees Ltd. ("Flint Ltd.") and a US subsidiary of Hypo Real Estate Capital Corporation ("HRECC") were liquidated in fiscal year 2020. Since 2010, Flint Ltd. and HRECC had mainly been occupied with winding up existing business in the "Commercial Real Estate" segment. In parallel with the unwinding of financing arrangements in the "Commercial Real Estate segment", FMS-WM also pressed successfully ahead with winding up the relevant affiliates. Specific preparations have already been made to also liquidate Flint Ltd. and HRECC.

Employees

As at 31 December 2020, 104 people were employed at FMS-WM and 283 at FMS-SG. In fiscal year 2020, the excellent performance from each and every individual once again made a crucial contribution to the progress in fulfilling our wind-up task.

We continued to devote considerable attention to the strategic goal of ensuring operational stability for FMS-WM going forward. The finite nature of the wind-up task, which we are addressing in an open and transparent manner, requires us not just to recruit, but above all to retain our qualified and motivated employees.

At the beginning of 2020, FMS-WM introduced a *mobile working* model and, since March 2020, we have been operating in a stable remote mode due to the COVID-19 pandemic.

With an emphasis on mutual trust and space to take responsibility, we support personal organisation of work and thus promote *work-life balance*. Due to the COVID-19 pandemic, 2020 was also a particularly challenging year for the parents among our employees. The high level of demand and the very positive feedback show that our childcare programme in the summer holidays was valued all the more in this situation.

In 2020, we further enhanced and expanded the diverse offering already in place for our employees in line with requirements. One prime example is the programme set up specifically to *promote occupational health*, as part of which a large number of virtual formats were offered around workstation layout, exercise and nutrition. Our employees play an active part in devising and implementing the offerings.

The open interaction between the Executive Board, managers and our employees is of immense importance to us. In 2020, we therefore introduced a modern *feedback system* at FMS-WM. This comprises different feedback formats such as instant feedback and the annual development review. The focus is both on individual development and on employees playing an active part in shaping the working relationship.

Operations stable and without restrictions despite COVID-19 pandemic

We as the Executive Board see ourselves as part of the FMS-WM team. In our daily work, we treat one another as equals, with credibility and respect. Since 2020, we have thus been devoting ourselves to agility, accumulating methodological knowledge and carrying out the first pilot projects applying the agile approach. To continue to fulfil the wind-up task and for the upcoming change processes for achieving its medium-term objectives, FMS-WM as an organisation will need to be flexible and adaptable and in 2021 is therefore launching an *agile transformation* project together with FMS-SG.

In 2020, we also transmitted our employer brand *"Einzigartig. Endlich. Echt."* ("Unique. Finite. Authentic.") through various communication channels and in particular expanded our presence on career platforms. A high level of visibility as a transparent and open public-sector enterprise with demanding and challenging assignments and an exceptional, but finite task is essential in competing for qualified and motivated applicants.

The increased response and wealth of positive feedback from applicants and our employees confirm our credibility as an attractive and modern employer. Additional proof came in November 2020 when we were named winner of the HR Excellence Award in the "SME Change Management" category in recognition of the active part played by our employees in the "LIKE" cultural change project at FMS-WM.

HUMAN RESOURCES
EXCELLENCE
AWARDS
2020
WINNER

Outlook

FMS-WM is devoting considerable attention to the remaining challenges to the work to wind up the portfolio. The focus remains on the medium-term objectives, which are intended to ensure that FMS-WM strikes an appropriate balance between necessary (risk) management, operational stability and cost-effective portfolio management.

Despite the challenging situation amid the effects of the COVID-19 pandemic on economic performance, we were once again able to work out in detail and implement measures to adapt FMS-WM's business model and initiate further measures in fiscal year 2020. In order to successfully adapt the business model, we need to gradually reduce the complexity of the portfolio, thereby enabling risk-related and administrative expenses to be cut significantly over the period of the wind-up. We will continue to systematically pursue this process in 2021. In addition, having a simplified portfolio is intended to extend the options available for its further management. These also include the option to transfer the management of the portfolio to third parties if the costs internally become too high or FMS-WM's operational stability can no longer be ensured.

In February 2021, FMS-WM reached another significant milestone in its successful wind-up activities when it signed the agreement for the sale of the shares in DEPFA BANK plc. At the same time, the value created since the DEPFA Group was taken over has exceeded FMS-WM's own expectations by far and it has been confirmed that the wind-up of the DEPFA Group by FMS-WM was the favourable option compared with the privatisation that was not carried out in 2014.

Since completion of the sales transaction is subject to regulatory and possibly antitrust approvals, closing the transaction is expected to take several months. FMS-WM, the DEPFA Group and the buyer will prepare for closing during this period. This includes further unbundling the DEPFA Group from FMS-WM and its subsidiary FMS-SG. All available funding lines for the DEPFA Group will be terminated by FMS-WM by the closing date.

Given the continuing uncertainty over the economic situation amid the COVID-19 pandemic and its impact, we remain cautious in our outlook for 2021. As a result of the progressive unwinding of the portfolio, we expect a further decline in current income from the portfolio. FMS-WM anticipates at least a breakeven result from ordinary activities for fiscal year 2021. So far, there have been no developments in the 2021 fiscal year which would contradict these forecasts.