ANNUAL FINANCIAL STATEMENTS

BALANCE SHEET FOR THE FISCAL YEAR ENDED 31 DECEMBER 2021

of FMS Wertmanagement

Aktivseite	in EUR thousand	in EUR thousand	31.12.2021 in EUR thousand	31.12.2020 in EUR thousand
1. Cash reserve				
Balances with central banks		9,372,150		10,695,410
Including: with Deutsche Bundesbank EUR 9,372,150 thousand (previous year: EUR 10,695,410 thousand)				
			9,372,150	10,695,410
2. Loans and advances to banks				
a) Payable on demand		37,291,423		37,187,064
b) Other loans and advances		1,721,579		1,789,142
			39,013,002	38,976,206
3. Loans and advances to customers			10,713,139	14,195,002
Including: secured by mortgages EUR 259,700 thousand (previous year: EUR 339,377 thousand) Public-sector loans EUR 4,384,964 thousand (previous year: EUR 4,475,809 thousand)				
4. Debt instruments				
a) Bonds and notes				
aa) Public-sector issuers	21,411,908			28,484,465
Including: eligible as collateral for Deutsche Bundesbank advances EUR 12,696,108 thousand (previous year: EUR 18,847,215 thousand)				
ab) Other issuers	29,097,586			30,254,977
Including: eligible as collateral for Deutsche Bundesbank advances EUR 833,817 thousand (previous year: EUR 880,109 thousand)				
		50,509,494		58,739,442
b) Own debt instruments		5,000,000		13,112,393
Principal amount EUR 5,000,000 thousand (previous year: EUR 13,112,310 thousand)				
			55,509,494	71,851,835
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			30,388	245,739
Including: in banks EUR 0 thousand (previous year: EUR 173,274 thousand) in financial services institutions EUR 30,000 thousand (previous year: EUR 30,000 thousand)				
7. Intangible fixed assets			280	151
Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets				
8. Tangible fixed assets			19	80
9. Other assets			374,384	392,116
10. Prepaid expenses			9,279,320	9,437,901
Total assets			**124,292,179**	**145,794,443**

Equity and liabilities		in EUR thousand	31.12.2021 in EUR thousand	31.12.2020 in EUR thousand
1. Liabilities to banks				
a) Payable on demand		693,367		1,019,265
b) With agreed maturity or notice period		918,708		8,065,723
			1,612,075	9,084,988
2. Liabilities to customers				
Other liabilities				
a) Payable on demand		71,019		81,369
b) With agreed maturity or notice period		56,310,630		33,398,899
			56,381,649	33,480,268
3. Securitised liabilities				
a) Debt instruments issued		24,052,341		40,175,076
b) Other securitised liabilities		23,406,355		41,989,582
Including: Commercial paper: EUR 23,406,355 thousand (previous year: EUR 41,989,582 thousand)				
			47,458,696	82,164,658
4. Other liabilities			749,571	1,291,748
5. Deferred income			16,037,420	17,728,669
6. Provisions				
a) Provision for taxes		2,546		2,668
b) Other provisions		232,668		267,737
			235,214	270,405
7. Equity				
a) Subscribed capital		200		200
b) Capital reserves		1,800		1,800
c) Retained earnings				
Other retained earnings		1,771,707		1,749,338
d) Net retained profits		43,847		22,369
			1,817,554	1,773,707
Total equity and liabilities			**124,292,179**	**145,794,443**
1. Contingent liabilities				
Contingent liabilities from guarantees and indemnity agreements			326,847	601,446
2. Other obligations				
Irrevocable loan commitments			538,955	700,849

INCOME STATEMENT

of FMS Wertmanagement for the period from 1 January until 31 December 2021

Income statement	in EUR thousand	in EUR thousand	01.01.-31.12.2021 in EUR thousand	01.01.-31.12.2020 in EUR thousand
1. Interest income from				
a) Lending and money market transactions	2,992,291			4,073,227
Including: negative interest deducted: EUR 425,712 thousand (previous year: EUR 392,723 thousand)				
b) Fixed-income securities and registered government debt	1,411,415			1,684,034
		4,403,706		5,757,261
2. Interest expenses				
Including: positive interest deducted EUR 419,193 thousand (previous year: EUR 407,185 thousand)		–4,045,851		–5,417,235
			357,855	340,026
3. Current income from				
a) Other long-term equity investments		0		0
b) Shares in affiliated companies		1,634		27,146
			1,634	27,146
4. Income from profit pooling, profit transfer or partial profit transfer agreements			2,115	2,666
5. Commission income		8,269		11,193
6. Commission expenses		–20,684		–24,393
			–12,415	–13,200
7. Other operating income			4,326	63,115
8. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	–14,184			–14,491
ab) Social security, post-employment and other employee benefit costs	–1,592			–1,622
Including: in respect of post-employment benefits EUR 94 thousand (previous year: EUR 130 thousand)				
		–15,776		–16,113
b) Other administrative expenses		–107,857		–118,100
			–123,633	–134,213
9. Depreciation, amortisation and write-downs of intangible and tangible fixed assets			–232	–272
10. Other operating expenses			–11,290	–6,300
11. Write-downs of and valuation allowances on receivables and certain securities, and additions to loan loss provisions		0		0
12. Income from reversals of write-downs of receivables and certain securities and from the reversal of loan loss provisions		643,466		156,479
			643,466	156,479
13. Write-downs of and valuation allowances on shares in affiliated companies, other long-term equity investments and securities classified as fixed assets		–818,007		–411,109
14. Income from reversals of write-downs of shares in affiliated companies, other long-term equity investments and securities classified as fixed assets		0		0
			–818,007	–411,109
15. Result from ordinary activities			43,819	24,338
16. Taxes on income			33	–1,961
17. Other taxes not included in "10. Other operating expenses"			–5	–8
18. Net income for the year			43,847	22,369
19. Net retained profits			43,847	22,369

CASH FLOW STATEMENT

of FMS Wertmanagement for the period from 1 January until 31 December 2021

Cash flow statement			01.01.–31.12.2021 in EUR thousand	01.01.–31.12.2020 in EUR thousand
1.		Net income/loss for the period	43,847	22,369
		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	–906,887	–47,778
3.	+/–	Increase/decrease in provisions	–35,069	–54,657
4.	+/–	Other non-cash expenses/income	–233,722	–1,585,137
5.	–/+	Gain/loss on disposal of fixed assets	–6	–2
6.	–/+	Other adjustments (net)	–2,115	–2,666
7.	–/+	Increase/decrease in loans and advances to banks	1,375,185	–5,032,165
8.	–/+	Increase/decrease in loans and advances to customers	4,083,414	1,384,423
9.	–/+	Increase/decrease in securities	10,394,005	3,464,138
10.	–/+	Increase/decrease in other assets relating to operating activities	–125,860	–1,874,790
11.	+/–	Increase/decrease in liabilities to banks	–7,550,945	5,658,599
12.	+/–	Increase/decrease in liabilities to customers	22,942,035	–7,224,463
13.	+/–	Increase/decrease in securitised liabilities	–30,485,920	7,463,956
14.	+/–	Increase/decrease in other liabilities relating to operating activities	–1,146,713	2,264,483
15.	+/–	Interest expense/interest income	–357,855	–340,026
16.	+/–	Income tax expense/income	–33	1,961
17.	+	Interest and dividend payments received	3,864,957	4,905,419
18.	–	Interest paid	–3,580,410	–4,665,531
19.	–/+	Income taxes paid	16,760	–2,508
20.	=	**Cash flows from operating activities**	**–1,705,332**	**4,335,625**
21.	+	Proceeds from disposal of long-term financial assets	415,295	155,886
22.	+	Proceeds from the accrual of WH-Erste Grundstücks GmbH & Co. KG, Munich	0	40,713
23.	–	Payments to acquire long-term financial assets	0	–11,156
24.	+	Proceeds from disposal of tangible fixed assets	6	2
25.	–	Payments to acquire tangible fixed assets	–3	0
26.	+	Proceeds from disposal of intangible fixed assets	0	0
27.	–	Payments to acquire intangible fixed assets	–298	0
28.	=	**Cash flows from investing activities**	**415,000**	**185,445**
29.	=	**Cash flows from financing activities**	**0**	**0**
30.		Net change in cash funds	–1,290,332	4,521,070
31.	+/–	Effect on cash funds due to exchange rate movements and remeasurements	–32,331	–3,061
32.	+	Cash funds at beginning of period	10,737,579	6,219,570
33.	=	**Cash funds at end of period**	**9,414,916**	**10,737,579**

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 2021

	Balance at 01.01.2021 in EUR thousand	Appropriation of net income / loss in EUR thousand	Net income for the year in EUR thousand	Balance at 31.12.2021 in EUR thousand
Subscribed capital	200	0	0	200
Capital reserves	1,800	0	0	1,800
Other retained earnings	1,749,338	22,369	0	1,771,707
Net retained profits	22,369	–22,369	43,847	43,847
Equity as defined by German commercial law	1,773,707	0	43,847	1,817,554

Net retained profits from fiscal year 2020 were transferred to retained earnings by decision of the Supervisory Board of FMS Wertmanagement AöR dated 1 April 2021.

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

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 has final decision-making powers and ultimate responsibility for the risk assets under management. The master agreement governing the outsourcing of business processes and services 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 2021 (Unterschleißheim, Dublin and New York).

In addition, IBM Deutschland GmbH, Ehningen (IBM Deutschland) and DATAGROUP Banking and Insurance GmbH, Düsseldorf (DG BIT), were engaged to provide essential IT services. In addition to IBM Deutschland, Fujitsu Technology Solutions GmbH, Munich (Fujitsu Technology) and CGI Deutschland BV & Co. KG, Leinfelden-Echterdingen (CGI Deutschland) will also be working on behalf of FMS-WM during fiscal year 2022 as a result of the outsourced IT services being retendered.

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.

In July 2020, FMS-WM launched the open, transparent, competitive and non-discriminatory sale of the shares in DEPFA BANK plc. In February 2021, the purchase agreement was signed between FMS-WM and Austria's BAWAG Group. The sale of the shares in DEPFA BANK plc to the BAWAG Group closed on 19 November 2021.

In connection with the sale of the shares in DEPFA BANK plc, the liquidity facilities provided by FMS-WM were terminated and most of the other contractual relationships between companies of the DEPFA Group and FMS-WM were terminated by 31 December 2021. As at 31 December 2021, there is primarily an outsourcing agreement still in place between FMS-SG and DEPFA BANK plc for the provision of FMS-SG's operational services to DEPFA BANK plc. This agreement has a limited term of no more than nine months starting 19 November 2021.

Other long-term equity investments

The sale of the shares in DEPFA BANK plc marked a major milestone in FMS-WM's unwinding of its portfolio of long-term equity investments. As at 31 December 2021, FMS-WM still holds 100% of the shares in FMS-SG. Additionally as at 31 December 2021, FMS-WM holds 100% of the shares in Flint Nominees Ltd., London (Flint Nominees), Hypo Real Estate Capital Corp., New York (HRECC) and WH-Erste Grundstücks Verwaltungs GmbH, Munich, all entities in liquidation.

Accounting principles

These annual financial statements of FMS-WM were prepared in accordance with Section 8a (1a) of the German Law Establishing a Financial Market and Economy Stabilisation Fund (Gesetz zur Errichtung eines Finanzmarkt- und Witschaftsstabilisierungsfonds – Stabilisierungsfondsgesetz - StFG) 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. Under Section 8a StFG and the supplementary provisions of the Charter, FMS-WM is not required to prepare consolidated financial statements.

Accounting policies

Assets, liabilities as well as prepaid expenses and deferred income are recognised in accordance with the principles laid out in Section 246ff. HGB. Assets, liabilities and executory contracts are measured based on the principles of Section 252 ff. HGB. For recognition and measurement, FMS-WM also applies the supplementary provisions for credit institutions set out in Sections 340 ff. HGB. This includes the option to recognise a contingency reserve for general banking risks in accordance with Section 340f HGB and a special reserve for general banking risks in accordance with Section 340g 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. The general loan loss provision will be recognised in accordance with the provisions of the IDW statement BFA 1/1990 for the last time in fiscal year 2021, as this has now been replaced by the IDW statement IDW RS BFA 7, which is to be applied as of fiscal year 2022. In fiscal year 2021, FMS-WM set up a project to ensure that IDW RS BFA 7 is fully implemented for financial accounting and reporting in fiscal year 2022.

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 believed may have occurred as at 31 December 2020 but were not yet observable based on the data available, were taken into account when making allocations to the general loan loss provision. FMS-WM regularly monitors the COVID-19 pandemic and potential effects on the FMS-WM portfolio. In fiscal year 2021, it did not identify any significant effects on the FMS-WM portfolio as a result of increased default risk in connection with the COVID-19 pandemic. The data used to calculate the general loan loss provision are continually updated and adapted in line with the current pandemic situation. As at 31 December 2021, FMS-WM does not expect any further increased default risk due to the COVID-19 pandemic, as a result of which the market uncertainty factor is no longer required as at 31 December 2021.

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 permanently used for operations. Debt instruments are measured at amortised cost in accordance with Section 253 (1) and (3) HGB. If FMS-WM believes that the assets are 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 reformed risk-free interest rates.

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. As of the 31 December 2021 reporting date, there were no securities repurchase agreements in the portfolio of FMS-WM.

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 2021 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 29.52%. 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 2021 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 and the interest rate benchmarks for collateralised derivatives
- Deferrals of positive differences between the nominal value of receivables and 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 the principles of 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 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 deferred income.

FMS-WM holds financial instruments subject to IBOR benchmark interest rates that ceased to be quoted at the beginning of fiscal year 2022 (CHF LIBOR, JPY LIBOR, GBP LIBOR). There were no significant changes in the measurement of these financial instruments due to FMS-WM's assent to the supplementary agreements to national and international master agreements in fiscal year 2021 and the resulting cuntractually agreed successor regulation, which provides for an appropriate spread adjustment on benchmark interest rates.

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 11 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 2021 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 the risk positions of DEPFA Group companies with a nominal volume of EUR 11.8 billion [2] in fiscal years 2016 to 2020 (referred to as “portfolio extensions”).

[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, December 2020: EUR 0.1 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 9,372 million (31 December 2020: EUR 10,696 million).

Loans and advances to banks

	31.12.2021 in EUR million	31.12.2020 in EUR million
a) Payable on demand	37,291	37,187
b) Other loans and advances	1,722	1,789
Total	**39,013**	**38,976**
Including: to affiliated companies	0	39
Including: to other long-term equity investments	0	0

As at 31 December 2020, loans and advances to affiliated companies mainly comprised accrued interest from financial derivatives entered into with entities of the DEPFA Group. These derivatives were terminated in full in fiscal year 2021.

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

	31.12.2021 in EUR million	31.12.2020 in EUR million
Up to three months	600	600
More than three months and up to one year	295	376
More than one year and up to five years	0	0
More than five years	827	813
Total	**1,722**	**1,789**

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 derivatives and financial innovations.

Loans and advances to customers

	31.12.2021 in EUR million	31.12.2020 in EUR million
Total	**10,713**	**14,195**
Including: to affiliated companies	0	0
Including: to other long-term equity investments	0	0

The decline in loans and advances to customers is mainly the result of the decrease in cash collateral payable on demand that was required to be provided for financial derivatives. The amount of 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), totalled EUR 1,591 million as at 31 December 2021 (31 December 2020: EUR 4,430 million).

In addition, scheduled repayments and sales of loans in the portfolio to be wound down had the effect of reducing this balance sheet item.

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

	31.12.2021 in EUR million	31.12.2020 in EUR million
Payable on demand	1,591	4,430
Up to three months	40	50
More than three months and up to one year	560	416
More than one year and up to five years	1,802	1,776
More than five years	6,720	7,523
Total	**10,713**	**14,195**

The decline in loans and advances to customers with a remaining maturity of more than five years is mainly attributable to a decrease in public-sector loans and mortgage loans as a result of sales and scheduled repayments.

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:

	31.12.2021 in EUR million	31.12.2020 in EUR million
Book value	55,510	71,852
Of which: public-sector issuers	21,412	28,485
Of which: other issuers	29,098	30,255
Of which: own debt instruments	5,000	13,112
Marketable securities	55,510	71,852
Of which: listed	46,747	61,506
Of which: not listed	8,763	10,346
Securities sold under repurchase agreements	0	7,067
Securities due in the following year	5,523	5,956
Securities issued by affiliated companies	0	25

Of the marketable securities, securities with a book value of EUR 50,510 million (31 December 2020: EUR 58,740 million) are held as fixed assets. Of the marketable securities, no securities were issued by affiliated companies (31 December 2020: book value of EUR 25 million).

In addition, the marketable securities include own debt instruments with a book value of EUR 5,000 million (31 December 2020: EUR 13,112 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, and the decline in own debt instruments. Currency effects that increased this items had an offsetting effect.

The deferred write-downs on debt instruments total EUR 687 million based on their fair values as at 31 December 2021 (31 December 2020: EUR 939 million). This comprises debt instruments with book values of EUR 11,130 million (31 December 2020: EUR 14,258 million) and fair values of EUR 10,443 million (31 December 2020: EUR 13,319 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.

As at 31 December 2021, FMS-WM did not sell any securities under repurchase agreements (31 December 2020: EUR 7,067 million).

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 31.12.2021	Total 31.12.2020
Book value	21,412	1,367	27,731	50,510	58,740
Fair value	26,765	1,545	38,642	66,952	75,849
Hidden reserves	5,560	206	11,363	17,129	18,048
Hidden losses (deferred write-downs)	207	28	452	687	939
Of which:					
Italy				267	323

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:

	31.12.2021 in EUR million	31.12.2020 in EUR million
Book value	30	246
Including: shares in affiliated companies (banks)	0	173
Including: shares in affiliated companies (financial services institutions)	30	30

The shares in affiliated companies (financial services institutions) relate to FMS-SG.

The decline in this balance sheet item in the fiscal year is mainly attributable to the sale of the shares in DEPFA BANK plc and a capital repayment by HRECC.

Statement of changes in fixed assets

	Cost			Depreciation / amortisation / write-downs				Book value	
in EUR million	Balance 01.01.2021	Additions 2021	Disposals 2021	cumulative 01.01.2021	Current year 2021	Disposals 2021	cumulative 31.12.2021	Balance 31.12.2021	Balance 31.12.2020
Intangible fixed assets	4.5	0.3	0.0	4.3	0.2	0.0	4.5	0.3	0.2
Tangible fixed assets	1.6	0.0	0.0	1.5	0.1	0.0	1.6	0.0	0.1
Shares in affiliated companies and other long-term equity investments	246			–216 [1]				30	246
Bonds and notes	58,740			–8,230 [1]				50,510	58,740

[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 375 million (31 December 2020: EUR 392 million) mainly include currency translation adjustments of EUR 317 million from off-balance sheet transactions denominated in foreign currencies (31 December 2020: EUR 308 million), which are recognised in the context of special coverage under Section 340h HGB. There are also receivables from derivatives in the amount of EUR 53 million (31 December 2020: EUR 60 million).

Prepaid expenses

Prepaid expenses are comprised of the following items:

	31.12.2021 in EUR million	31.12.2020 in EUR million
Unamortised payments made for derivatives	8,064	8,070
Lending business (premium from receivables)	1,189	1,334
Issuing business / loans taken out (discount, liabilities)	21	31
Other	5	3
Total	**9,279**	**9,438**

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 and as part of its funding activities. The decline in this item in the reporting period is mainly attributable to pro rata amortisation and terminations in connection with the unwinding of the portfolio. These were partly offset by additions stemming from funding activity carried out during the fiscal year.

Prepaid expenses from lending business mainly result from 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 mainly attributable to pro rata amortisation.

Subordinated assets

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

	31.12.2021 in EUR million	31.12.2020 in EUR million
Debt instruments	37	47

Equity and liabilities

Liabilities to banks

	31.12.2021 in EUR million	31.12.2020 in EUR million
a) Payable on demand	693	1,019
b) With agreed maturity or notice period	919	8,066
Total	**1,612**	**9,085**
Including: to affiliated companies	0	459
Including: to other long-term equity investments	0	0

Liabilities payable on demand consist of cash collateral received for financial derivatives. As at 31 December 2020, EUR 438 million of cash collateral received was attributable to DEPFA Group companies. The related derivatives were terminated in full in fiscal year 2021.

Liabilities with an agreed maturity or notice period consist mainly of liabilities from accrued interest on derivatives in the amount of EUR 873 million (31 December 2020: EUR 854 million). Liabilities from securities repurchase agreements (as seller) were repaid in full in fiscal year 2021 (31 December 2020: EUR 7,123 million).

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

	31.12.2021 in EUR million	31.12.2020 in EUR million
Up to three months	0	3,810
More than three months and up to one year	874	4,211
More than one year and up to five years	0	0
More than five years	45	45
Total	**919**	**8,066**

The decline in liabilities with maturities of up to one year is mainly the result of securities repurchase agreements maturing as scheduled.

Liabilities to customers

	31.12.2021 in EUR million	31.12.2020 in EUR million
a) Payable on demand	71	81
b) With agreed maturity or notice period	56,311	33,399
Total	56,382	33,480
Including: to affiliated companies	0	43
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 68 million (31 December 2020: EUR 79 million).

Liabilities with an agreed maturity or notice period consist mainly of funds obtained via the FMS in the amount of EUR 55,010 million (31 December 2020: EUR 30,010 million). Additional liabilities to customers mainly include loans taken out in the amount of EUR 1,164 million (31 December 2020: EUR 1,301 million). As at 31 December 2020, there had still been liabilities of EUR 1,792 million from term and time deposits which matured in fiscal year 2021.

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

	31.12.2021 in EUR million	31.12.2020 in EUR million
Up to three months	0	3,386
More than three months and up to one year	759	4,208
More than one year and up to five years	31,950	13,135
More than five years	23,602	12,670
Total	56,311	33,399

The complete decline in liabilities with a maturity of up to three months resulted from the maturing of term and time deposits and funding obtained via the FMS.

The decline in liabilities with a maturity of more than three months and up to one year is mainly attributable to the maturity of funding obtained via the FMS and a decrease in accrued interest for derivatives and financial innovations.

The increase in liabilities with maturities of more than one year resulted from new funding obtained via the FMS.

Securitised liabilities

	31.12.2021 in EUR million	31.12.2020 in EUR million
a) Debt instruments issued	24,053	40,175
b) Other securitised liabilities	23,406	41,990
Total	**47,459**	**82,165**
Including: to affiliated companies	0	0
Including: to other long-term equity investments	0	0
Amounts due in the following year	38,475	56,688
Including: debt instruments issued	15,068	14,698

Securitised liabilities comprise debt instruments issued in the amount of EUR 24,053 million (31 December 2020: EUR 40,175 million), European commercial paper issued in the amount of EUR 16,931 million (31 December 2020: EUR 28,687 million) and US commercial paper issued in the amount of EUR 6,475 million (31 December 2020: EUR 13,303 million).

The nominal value of the securitised liabilities is EUR 47,363 million (31 December 2020: EUR 82,020 million).

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

	31.12.2021 in EUR million	31.12.2020 in EUR million
Up to three months	19,024	25,165
More than three months and up to one year	4,382	16,825
More than one year and up to five years	0	0
More than five years	0	0
Total	**23,406**	**41,990**

Other liabilities

Other liabilities mainly include currency translation adjustments of EUR 486 million from off-balance sheet transactions denominated in foreign currencies (31 December 2020: EUR 1,031 million), which are recognised in the context of special coverage under Section 340h HGB, and liabilities of EUR 247 million from derivatives (31 December 2020: EUR 244 million).

Deferred income

	31.12.2021 in EUR million	31.12.2020 in EUR million
Unamortised payments received for derivatives	14,734	17,039
Issuing business / loans taken out	1,271	654
Lending business (discount on receivables)	28	32
Other	4	4
Total	**16,037**	**17,729**

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. In addition to pro rata amortisation, the decline is also attributable to the termination of derivatives in connection with the unwinding of the portfolio and in the context of the wind-up task related to the DEPFA Group.

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

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

Provisions

	31.12.2021 in EUR million	31.12.2020 in EUR million
Provision for taxes	3	3
Other provisions	232	267
Including provisions for expected losses	217	253
Total	235	270

Provisions for expected losses consist mainly of provisions for expected losses for stand-alone derivatives of EUR 98 million (31 December 2020: EUR 140 million) and for valuation unit ineffectiveness under Section 254 HGB of EUR 85 million (31 December 2020: EUR 90 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 327 million (31 December 2020: EUR 601 million). This includes obligations arising from CDS (with third parties as counterparties) in the amount of EUR 254 million which are accounted for as financial guarantees (31 December 2020: EUR 567 million). The decrease in the reporting period is attributable to the portfolio wind-up.

There are also so-called “transfers via guarantee” in the amount of EUR 5 million (31 December 2020: EUR 6 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.

In the course of initiating the liquidation of HRECC in fiscal year 2021, FMS-WM undertook to guarantee potential future liabilities incurred by the entity.

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 539 million (31 December 2020: EUR 701 million) consist mainly of a liquidity facility that has not yet been fully drawn.

Following the sale of the shares in DEPFA BANK plc, no more liquidity facilities were provided to DEPFA BANK plc. As at 31 December 2020, these liquidity facilities still amounted to EUR 500 million and had not been drawn down.

Other financial obligations

Some of the outsourced services (inter alia FMS-SG, IBM Deutschland and DG BIT, as well as Fujitsu Technology and CGI Deutschland in 2022) 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 average annual contractual volume of around EUR 80 million is expected for the years 2022 to 2024, of which an average of around 60% is attributable to FMS-SG.

FMS-WM has issued its subsidiary Flint Nominees 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

As at 31 December 2021, there are no assets pledged as collateral for liabilities or contingent liabilities of FMS-WM (31 December 2020: securities sold under repo agreements amounting to EUR 7,067 million).

Loans and advances to banks include an amount of EUR 157 million (31 December 2020: EUR 144 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, 31.12.2021				
in EUR million	< 1 year	1 – 5 years	> 5 years	Total 31.12.2021	Total 31.12.2020
Interest-based transactions	29,438	55,152	93,863	178,453	197,680
TRS	0	4	3,874	3,878	3,884
Currency-based transactions	20,369	5,051	11,323	36,743	38,451
Of which: forward exchange transactions	15,716	0	0	15,716	25,392
Of which: cross currency swaps	4,653	5,051	11,323	21,027	13,059
Total	**49,807**	**60,207**	**109,060**	**219,074**	**240,015**

	Fair values			
	31.12.2021		31.12.2020	
in EUR million	Positive	Negative	Positive	Negative
Interest-based transactions	9,417	–46,288	13,065	–54,180
TRS	946	–1,102	1,037	–1,263
Currency-based transactions	760	–1,168	689	–1,503
Of which: forward exchange transactions	259	–9	8	–952
Of which: cross currency swaps	501	–1,159	681	–551
Total	**11,123**	**–48,558**	**14,791**	**–56,946**

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 –6,681 million as at 31 December 2021 (31 December 2020: EUR –8,970 million). In the other assets / other liabilities item, the net book value of these derivatives in the amount of EUR –364 million is reported (31 December 2020: EUR –907 million).

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

	31.12.2021		31.12.2020	
in EUR million	Nominal values	Fair values	Nominal values	Fair values
Secured party CDS	1,464	11	1,371	15
Guarantor CDS	275	–11	605	–28
Total	**1,739**	**0**	**1,976**	**–13**

Accrued payments for CDS are recognised in prepaid expenses and deferred income. As at 31 December 2021, these prepaid expenses and deferred income netted to EUR 11 million (31 December 2020: 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 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. Their volume has not changed as at 31 December 2021.

The CDS where FMS-WM is the guarantor are reported under contingent liabilities in the amount of EUR 254 million (31 December 2020: EUR 567 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	31.12.2021 in EUR million	31.12.2020 in EUR million
Assets	30,341	35,979
Liabilities	71,402	53,398
Derivatives	10,496	13,094
Total	**112,239**	**102,471**

As at 31 December 2021, hedged items with a nominal value of EUR 3,904 million (31 December 2020: EUR 3,915 million) were combined with TRS pursuant to IDW RS BFA 1.

Furthermore, hedged items with a nominal value of EUR 1,103 million (31 December 2020: EUR 1,040 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 2021 and whose countervailing changes in value or cash flows can be expected to balance in the future.

Assets	31.12.2021 in EUR million	31.12.2020 in EUR million
Up to three months	151	326
More than three months and up to one year	317	283
More than one year and up to five years	3,811	3,417
More than five years	26,062	31,953
Assets	30,341	35,979

Liabilities	31.12.2021 in EUR million	31.12.2020 in EUR million
Up to three months	1,488	1,706
More than three months and up to one year	7,135	12,958
More than one year and up to five years	38,632	25,519
More than five years	24,147	13,215
Liabilities	71,402	53,398

Derivatives	31.12.2021 in EUR million	31.12.2020 in EUR million
Up to three months	75	103
More than three months and up to one year	229	866
More than one year and up to five years	1,695	2,101
More than five years	8,497	10,024
Derivatives	10,496	13,094

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, effects increasing this item both on the assets and the equity and liabilities side of EUR 32,471 million would arise in each case as at the 31 December 2021 reporting date (31 December 2020: EUR 35,677 million).

The interest rate risk-related changes in the value of the hedged items and hedging instruments arising from valuation units with ineffectiveness pursuant to Section 254 HGB (interest rate risk hedge) are as follows:

31.12.2021 in EUR million	Negative change in value (absolute figure)	Positive change in value (absolute figure)
Hedged items	604	22,594
Hedging instruments	22,669	594
Total	**23,273**	**23,188**
Of which: not recognised	23,188	0
Of which: recognised as a provision for expected losses	85	0

Foreign-currency items

Total assets in foreign currencies as at 31 December 2021 amount to EUR 53,623 million (31 December 2020: EUR 54,282 million). Liabilities in foreign currencies as at 31 December 2021 amount to EUR 47,194 million (31 December 2020: EUR 65,254 million).

NOTES TO THE INCOME STATEMENT

Net interest income

	01.01. – 31.12.2021 in EUR million	01.01. – 31.12.2020 in EUR million
Interest income	4,404	5,757
Lending and money market transactions Including: negative interest deducted EUR 426 million (previous year: EUR 393 million)	2,992	4,073
Fixed income securities and registered government debt	1,412	1,684
Interest expenses	4,046	5,417
Lending and money market transactions Including: positive interest deducted EUR 419 million (previous year: EUR 407 million)	3,300	4,229
Securitised liabilities	351	555
Loans taken out	–200	–99
Other	595	732
Total	358	340

The rise in net interest income is due mainly to improved funding terms, which were partially offset by countervailing effects of the progressive unwinding of the portfolio. The improved funding terms are attributable to capital market funding gradually being replaced by drawing further on funding available via the FMS.

Net interest income includes one-off effects in the amount of EUR 11 million (previous year: EUR 17 million) resulting from compensation payments received for contractual adjustments to existing credit support annexes for derivatives.

Interest income includes EUR 2,993 million (previous year: EUR 3,871 million) in interest from derivative financial instruments and EUR 426 million (previous year: EUR 393 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 3,719 million (previous year: EUR 4,513 million) and negative interest on liabilities for EUR 419 million (previous year: EUR 407 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. These effects are offset by effects from interest rate derivatives in roughly the same amount.

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

The current income from shares in affiliated companies is attributable to the recognition in profit or loss of the dividend of HRECC. The prior-year income was mainly attributable to the subsidiary WH-Erste KG.

Income from profit transfer

In fiscal year 2021, FMS-WM collected the annual result of FMS-SG in the amount of EUR 2 million (previous year: EUR 3 million) due to the existing profit transfer agreement with FMS-SG.

Net commission income

	01.01. – 31.12.2021 in EUR million	01.01. – 31.12.2020 in EUR million
Commission income	8	11
Derivatives business	6	8
Lending business	2	3
Other	0	0
Commission expenses	20	24
Derivatives business	17	18
Securities and issuing business	2	5
Other	1	1
Total	–12	–13

The year-on-year increase in net commission income is due to a currency-related decrease in expenses from derivatives business and lower expenses from the declining issuing business. These were partly offset by the decrease in income from lending business as a result of the unwinding of the portfolio.

Income from derivatives business is mainly attributable to Western Europe.

Other operating income and expenses

Other operating income of EUR 4 million (previous year: EUR 63 million, including EUR 45 million from the accrual of WH-Erste KG to FMS-WM) mainly consists of income from providing services to affiliated companies and from the reversal of provisions.

Other operating expenses of EUR 11 million (previous year: EUR 6 million) mainly include expenses from foreign currency translation in the amount of EUR 9 million (previous year: income from foreign currency translation in the amount of EUR 9 million), as well as portfolio-related costs and transaction costs.

General and administrative expenses

	01.01. – 31.12.2021 in EUR million	01.01. – 31.12.2020 in EUR million
Personnel expenses	16	16
Other administrative expenses	108	118
Total	124	134

Personnel expenses for the staff employed by FMS-WM in the reporting period amount to EUR 16 million (previous year: EUR 16 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 89 million (previous year: EUR 92 million). Other administrative expenses amounted to EUR 19 million in the reporting period (previous year: EUR 26 million).

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

Depreciation and amortisation of intangible and tangible fixed assets amounts to EUR 232 thousand (previous year: EUR 272 thousand).

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

This item contains income and expenses in connection with lending business and from the revaluation of securities classified as current assets amounting to a net EUR 643 million (previous year: EUR 156 million) and results mainly from the reversal of risk provisions.

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

This item contains income and expenses amounting to a net EUR –818 million (previous year: EUR –411 million) and was influenced mainly by the unwinding of the portfolio and the sale of the shares in DEPFA BANK plc.

The unwinding of exposures in the wind-up portfolio, including the termination of related derivatives, resulted in a net loss of EUR 1.0 billion, mainly attributable to unwinding measures in the Public Sector segment.

The sale of the shares in DEPFA BANK plc resulted in a disposal gain after transaction costs of around EUR 0.2 billion.

Added to this were net effects of EUR –22 million from the revaluation of exposures in the wind-up portfolio and effects of EUR 16 million from the revaluation of derivatives. The net revaluation gain / loss from derivatives is mainly attributable to net reversals of provisions for expected losses for valuation unit ineffectiveness under Section 254 HGB and for derivatives measured in accordance with the imparity principle as well as to net additions for expected losses from unwinding measures.

Taxes on income

The income reported under the item Taxes on income in the amount of EUR 33 thousand (previous year: expenses of EUR 2 million) result from EUR 0.4 million in income tax expenses relating to the Italian branch and EUR 0.4 million in income from taxes in prior years relating to the German parent company.

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. – 31.12.2021 in EUR million	01.01. – 31.12.2020 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 2021.

Other assurance services in the amount of EUR 30 thousand (previous year: EUR 29 thousand) were incurred in connection with FMS-WM's issuance activities.

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 2021 be allocated to retained earnings.

Shareholdings

The following overview shows the shares in affiliated companies of FMS-WM as at 31 December 2021.

Name and registered office	Share in capital	Equity in thousand	Result in thousand	Currency [1]
Flint Nominees Ltd., London [2]	100.00 %	11 [3]	–194 [4]	GBP
FMS Wertmanagement Service GmbH, Unterschleißheim	100.00 %	30,000 [5]	0 [6,7]	EUR
Hypo Real Estate Capital Corp., New York [2]	100.00 %	453 [8]	–196 [9]	USD
WH-Erste Grundstücks Verwaltungs GmbH, Munich [2]	100.00 %	11 [10]	–16 [11]	EUR

1 *Exchange rates as at 31 December 2021: 1 EUR = 0.84028 GBP*
1 EUR = 1.1326 USD
2 *In liquidation*
3 *Closing balance sheet as at 1 November 2020*
4 *1 January 2020 – 1 November 2020*
5 *31 December 2021*
6 *2021*
7 *After profit transfer*
8 *Closing balance sheet as at 28 October 2021, preliminary*
9 *1 January 2021 to 28 October 2021, preliminary*
10 *Closing balance sheet as at 14 September 2021*
11 *1 January 2021 to 14 September 2021*

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
Chairman of the Supervisory Board
Diplom-Kaufmann (business administration degree)

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 (until 31 December 2021)
Member of the Group Executive Board of Aquila Capital, Hamburg

Dr. Holger Horn
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 938 thousand for fiscal year 2021 (previous year: EUR 913 thousand). As in the previous year, no benefits in kind were paid to the Executive Board in fiscal year 2021. A total of EUR 94 thousand (previous year: EUR 130 thousand) was expended in the reporting period for the pension plans applicable to the members of the Executive Board.

Total remuneration of EUR 165 thousand was paid to the members of FMS-WM's Supervisory Board for fiscal year 2021 (previous year: EUR 185 thousand).

Annual average number of employees

At 31 December 2021, FMS-WM had 103 employees (31 December 2020: 104). The average number of employees in fiscal year 2021 was:

	Women	Men	Total
Employees	41	63	104

Seats held by Executive Board members

In fiscal year 2021, 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, and DEPFA ACS BANK DAC, Dublin (until 19 November 2021 in each case).

- Carola Falkner:
  Non-executive member of the Board of Directors of DEPFA BANK plc, Dublin, (until 19 November 2021).

REPORT ON POST-BALANCE SHEET DATE EVENTS

On 24 February 2022, the Russian Federation invaded Ukraine. Ukraine has been in a state of war since then. This war has resulted in reciprocal sanctions being imposed, particularly between the European Union, the USA and the United Kingdom on the one hand and the Russian Federation on the other.

As at 31 December 2021, FMS-WM does not hold any exposures with counterparties from the Russian Federation, Belarus or Ukraine. Neither does FMS-WM maintain business relationships with banks or companies from those countries.

Up to the time of preparing these annual financial statements, this has not had any effect on FMS-WM.

There were no other reportable events after the balance sheet date.

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, 15 March 2022

FMS Wertmanagement
The Executive Board

Christoph Müller | Carola Falkner

INDEPENDENT AUDITOR'S REPORT

To FMS Wertmanagement AöR, Munich

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, Munich, which comprise the balance sheet as at December 31, 2021, and the statement of profit and loss, cash flows statement and statement of changes in equity for the financial year from January 1 to December 31, 2021, and notes to the financial statements, including the presentation of the recognition and valuation policies. In addition, we have audited the management report of FMS Wertmanagement AöR for the financial year from January 1 to December 31, 2021.

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 December 31, 2021 and of its financial performance for the financial year from January 1 to December 31, 2021 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 § [Article] 322 Abs. [paragraph] 3 Satz [sentence] 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, principles and standards 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 January 1 to December 31, 2021. 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 Appropriateness of loan loss provisions in the lending business

2 Mark-to-model 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 Appropriateness of loan loss provisions in the customer lending business

(1) The customer lending business at FMS-WM comprises loans and advances to customers, liabilities from guarantees and indemnity agreements as well as irrevocable loan commitments. In its annual financial statements, FMS-WM reports loans and advances to customers of EUR 10.7 billion, liabilities from guarantees and indemnity agreements of EUR 0.3 billion and irrevocable loan commitments of EUR 0.5 billion. In financial year 2021, the risk provisioning result was positive due to a gain of EUR 643.5 million from cross-compensation. The measurement of risk provisions for the customer lending business is determined in particular by the executive directors' estimates with respect to the future loan defaults, the structure and quality of the loan portfolio, general economic factors and, if applicable, the effects of expected selling prices on the customer lending business. The amount of the specific valuation allowances for loans and advances to customers corresponds to the difference between the loan amounts outstanding and the lower value assigned to them as of the balance sheet date. The amount of the individual provisions for contingent liabilities is calculated based on the risk of utilization. Existing collateral is taken into account. For latent default risk, global valuation allowances and provisions are recognized based on the expected loss, which is determined using statistical data. Their purpose is to cover counterparty default risks and negative counterparty-related developments that have already occurred but that FMS-WM is not yet aware of. The amounts of impairments in the customer lending business are highly significant for the assets, liabilities and financial performance of FMS-WM, and they involve considerable judgment on the part of the executive directors. Furthermore, the valuation parameters applied, which are subject to material uncertainties, have a significant impact on the recognition and the amount of any required impairments. Against this background, this matter was of particular significance in the context of our audit.

(2) As part of our audit, we initially assessed the appropriateness of the design of the controls in FMS-WM's relevant internal control system and tested the controls' effectiveness. In doing so, we considered the business organization, the IT systems and the relevant valuation models. Moreover, we evaluated the valuation in the customer lending business, including the appropriateness of estimated values, on the basis of sample testing of credit exposures. We also took off-balance-sheet exposures into consideration when selecting which credit exposures to examine. For this purpose, we assessed, among other things, the available documentation of FMS-WM with respect to the economic circumstances as well as the recoverability of the related collateral. For real estate as collateral, we obtained an understanding of and critically assessed the source data, valuation parameters applied and assumptions made on which the expert valuations provided to us by FMS-WM were based, and evaluated whether they lay within an acceptable range. In addition, for the purpose of assessing the calculated risk provisions, we evaluated the calculation methods applied by FMS-WM as well as the underlying assumptions and parameters. Based on our audit procedures, we were overall satisfied that the assumptions made by the executive directors for the purpose of testing the recoverability of the loan portfolio are appropriate, and that the processes implemented by FMS-WM are appropriate and effective.

(3) FMS-WM's disclosures relating to the customer lending business are contained in the sections entitled "Accounting policies" and "Notes to the balance sheet" of the notes to the annual financial statements.

2 Mark-to-model financial instruments (securities and derivatives)

(1) FMS-WM determines the fair value for its financial instruments for the purposes of recognition and to present them in the notes. If no active market or observable prices for comparable instruments are available, the fair value is determined using internal valuation models. Bonds and other fixed-income securities amounted to EUR 50.5 billion as of the balance sheet date. Of this amount, EUR 8.8 billion relates to unlisted bonds and other fixed-income securities for which no observable market prices are available and whose fair values are measured using internal models. As of the balance sheet date, derivatives amounting to EUR 219.1 billion (notional value) were held with a positive fair value of EUR 11.1 billion and a negative fair value of EUR 48.5 billion. These consist exclusively of unlisted OTC derivatives whose fair value is determined using internal valuation models. The key input parameters of the valuation models applied by FMS-WM are based on estimates that involve uncertainties and judgement. That leads to 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 valuation parameters. Against this background and due to the potential effects of existing valuation uncertainties on the annual financial statements, the calculation of the fair value of mark-to-model securities and derivatives was of particular significance in the context of our audit.

(2) As part of our audit, we analyzed in particular the mark-to-model securities and derivatives with a focus on exposures that were subject to increased valuation uncertainties. Together with our internal valuation specialists, we assessed the appropriateness of the valuation models applied, the appropriateness of the data capture procedures and the appropriateness and effectiveness of the relevant controls within FMS-WM's internal control system for the valuation of the securities and derivatives in question. These controls relate to independent verification of the price sources and valuation parameters applied, and independent validation of the valuation models. In addition, we carried out our own independent and risk-based revaluation for selected non-liquid financial instruments as of the balance sheet date, and compared these results with the values determined by FMS-WM. The fair values of securities and derivatives calculated based on the valuation techniques and assumptions applied by the executive directors are within reasonable ranges in our opinion.

(3) FMS-WM's disclosures concerning mark-to-model of financial instruments (securities and derivatives) are contained in the sections entitled "Accounting Policies" and "Notes to the Balance Sheet" of the notes to the annual financial statements.

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 mentioned above and, in so doing, to consider whether the other information is materially inconsistent with the annual financial statements, with the management report disclosures audited in terms of content or with our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 April 1, 2021. We were engaged by the supervisory board on April 1, 2021. We have been the auditor of FMS Wertmanagement AöR, Munich, 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, March 15, 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Stefan Palm)	(sgd. Axel Menge)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)