WIND-UP TASK FOR THE DEPFA GROUP FULFILLED AND WIND-UP TARGETS FOR 2021 MET

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FMS Wertmanagement (FMS-WM) closed fiscal year 2021 with a positive result for the year and fully completed the task of winding up the DEPFA Group by successfully selling it.

The *result from ordinary activities* for fiscal year 2021 came to EUR 44 million. The balance of risk provisions and net income from investments in the amount of EUR –175 million (previous year: EUR –255 million) was impacted by valuation and sale decisions and, as in the previous year, had a considerably negative effect on the result in fiscal year 2021. Within net income from investments, disposal losses in connection with measures to unwind the portfolio, particularly in the Public Sector segment, are set against the gain on the sale of the shares in DEPFA BANK plc (DEPFA).

Portfolio wind-up in fiscal year 2021 came to EUR 9.8 billion, with sales of exposures being a significant contributor. Due to countervailing currency effects of EUR 2.3 billion, the nominal value of the portfolio was down by EUR 7.5 billion overall as at 31 December 2021.

As in previous years, net retained profits reported in the amount of EUR 44 million are to be accumulated rather than distributed. FMS-WM reports equity of EUR 1.8 billion as at 31 December 2021. Together with risk provisions, this serves as a buffer for any risks that might still arise during the further unwinding of the portfolio.

The *employees* of FMS-WM and FMS Wertmanagement Service GmbH (FMS-SG) remain essential to the successful fulfilment of the wind-up task in a way that maximises value. They deserve a special word of thanks for FMS-WM's successful work, which in fiscal year 2021 was once again impacted by the conditions of the COVID-19 pandemic and ensured by employees demonstrating considerable commitment and a high degree of flexibility while working almost entirely in remote mode.

FMS-WM's statutory auditor audited the annual financial statements as at 31 December 2021 and the management report for fiscal year 2021 and issued an unqualified auditors' report.

At its meeting on 7 April 2022, the Supervisory Board approved the annual financial statements as prepared by the Executive Board of FMS-WM.

Portfolio wind-up

FMS-WM is tasked with unwinding the portfolio transferred to it in a way that maximises value. Since the portfolio was transferred from the HRE Group on 1 October 2010, its original nominal value of EUR 175.7 billion has been reduced to EUR 54.1 billion as at the end of 2021. Adjusted for the assets acquired from DEPFA Group companies in fiscal years 2016 to 2020 with a total acquisition-date nominal value of EUR 11.8 billion, the portfolio has been reduced by around 73% by the end of 2021.

Portfolio reduced by EUR 7.5 billion

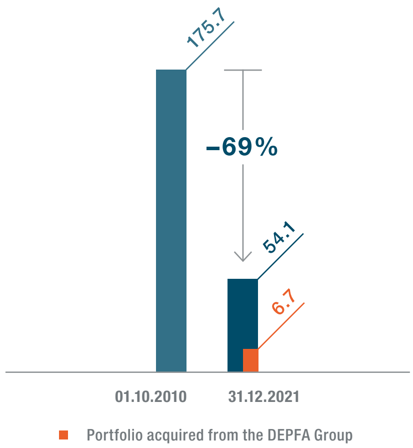
The number of counterparties in FMS-WM's portfolio fell by 81% to 594 since its transfer. Originally, there were 3,191 counterparties in the portfolio.

Since the portfolio was taken over, the number of countries in which FMS-WM still holds exposures has been reduced from 66 to 34 countries (see chart on page 4 and 5).

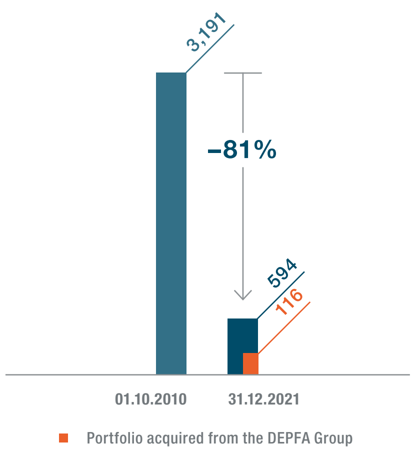
There are still clear portfolio concentrations in the United Kingdom, Italy and the USA, which together accounted for around 71% of the nominal value of the portfolio as at 31 December 2021.

FMS-WM OVERALL PORTFOLIO

DEVELOPMENT OF THE NOMINAL VOLUME (IN EUR BILLION)

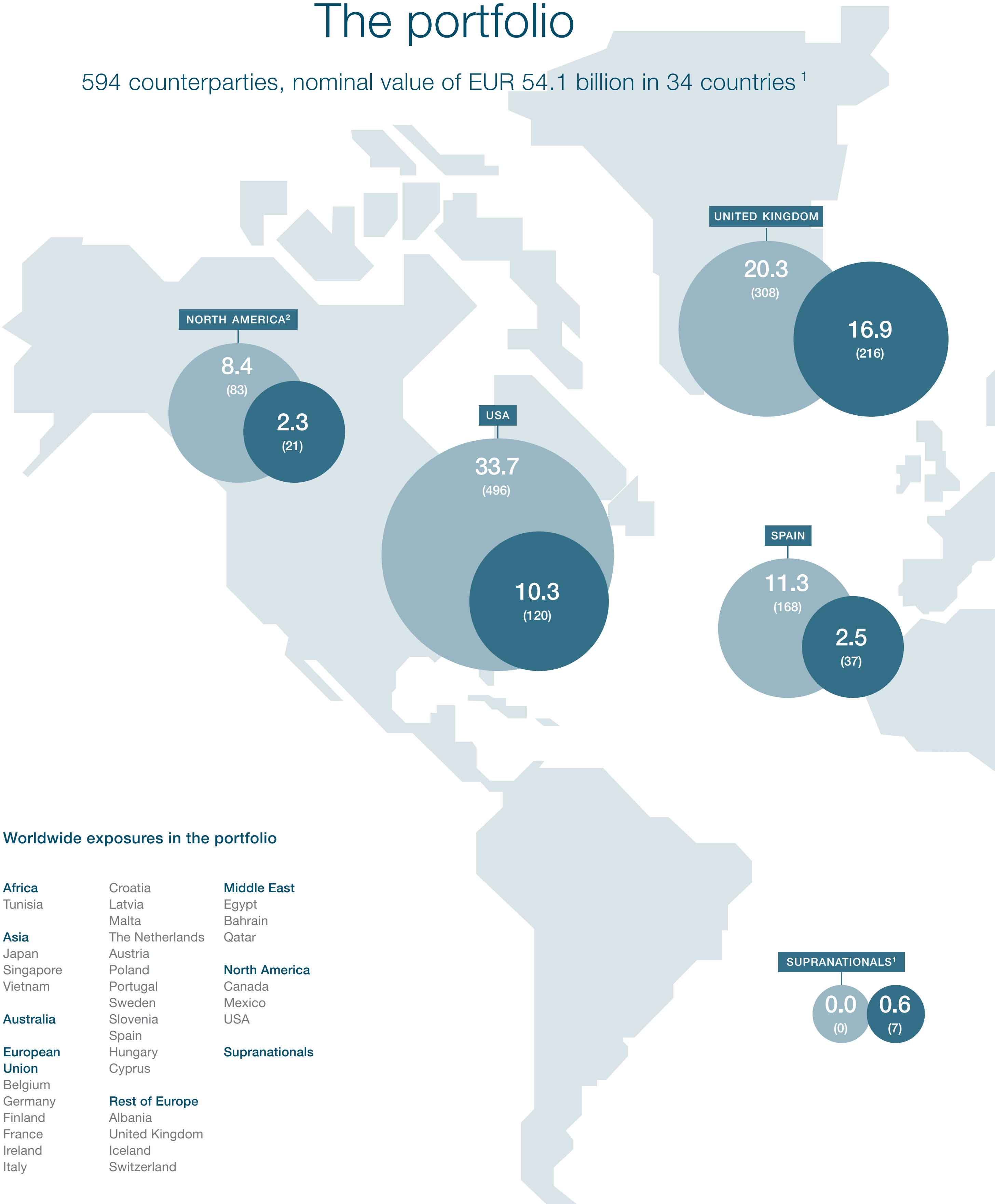


DEVELOPMENT OF THE NUMBER OF COUNTERPARTIES



The portfolio

594 counterparties, nominal value of EUR 54.1 billion in 34 countries [1]



Worldwide exposures in the portfolio

Africa
Tunisia

Asia
Japan
Singapore
Vietnam

Australia

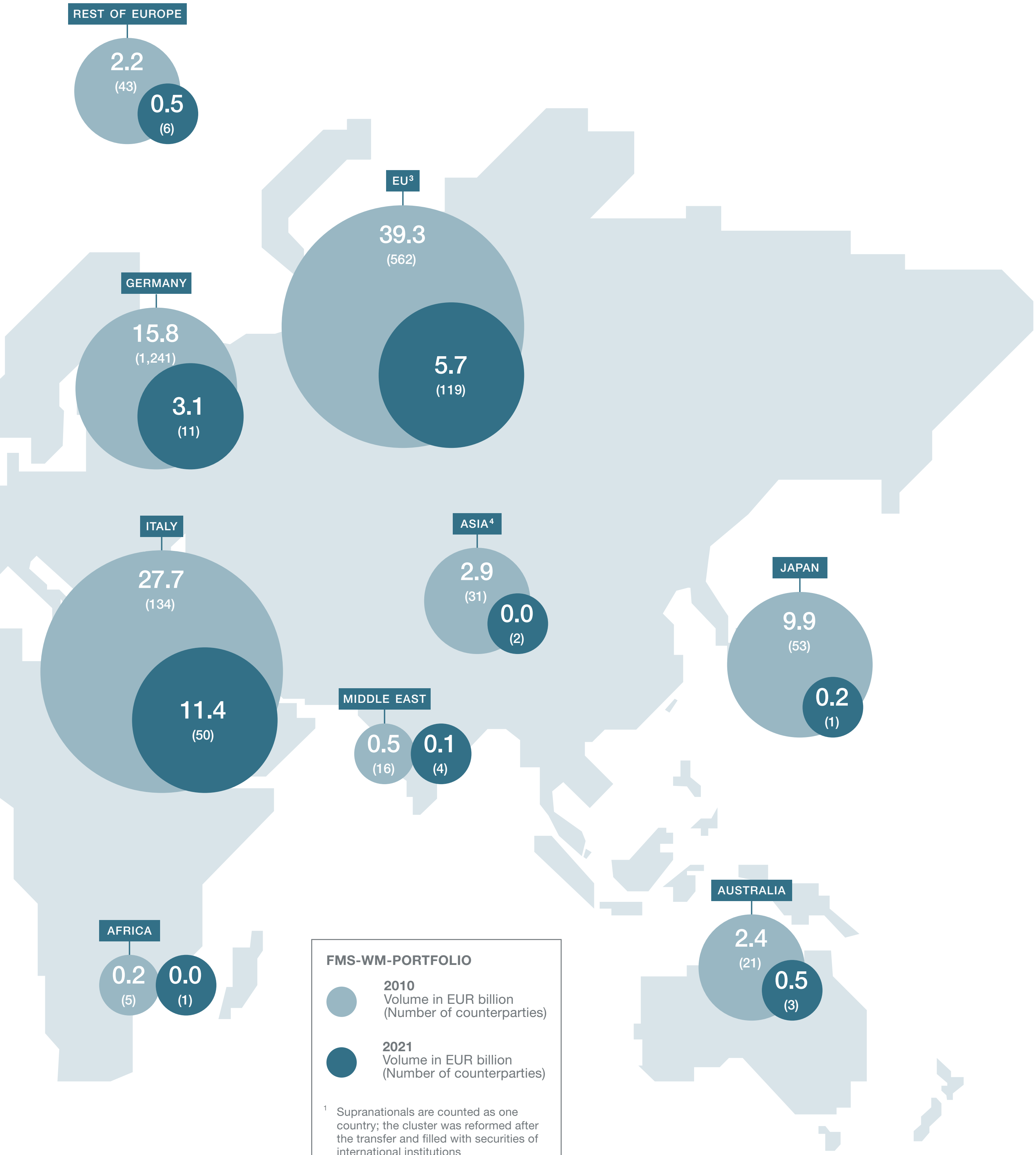
European Union
Belgium
Germany
Finland
France
Ireland
Italy
Croatia
Latvia
Malta
The Netherlands
Austria
Poland
Portugal
Sweden
Slovenia
Spain
Hungary
Cyprus

Rest of Europe
Albania
United Kingdom
Iceland
Switzerland

Middle East
Egypt
Bahrain
Qatar

North America
Canada
Mexico
USA

Supranationals

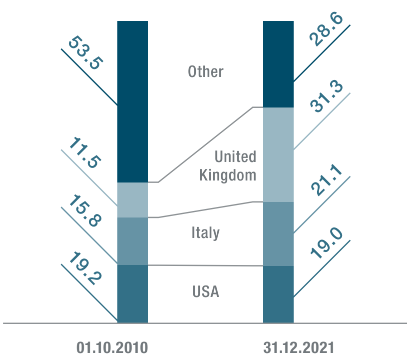


1 Supranationals are counted as one country; the cluster was reformed after the transfer and filled with securities of international institutions
2 Excluding the USA
3 Excluding Germany, Italy and Spain
4 Excluding Japan

FMS-WM's operating model was originally devised in 2010 for a complex portfolio and was set up appropriately. The lengthy process of unwinding the portfolio, mounting cost pressures and the need to ensure operational stability require the original operating model to be adapted. To this end, FMS-WM has defined a set of medium-term objectives that are based on a significantly simplified and streamlined wind-up portfolio.

PORTFOLIO DISTRIBUTION BY COUNTRY

(IN % OF NOMINAL VOLUME)



As was the case when the portfolio was taken over in 2010, most of the exposures are usually part of asset swap packages in which they are attached to derivatives that are used to hedge interest rate, inflation or currency risk. If the exposures were sold prematurely, those derivatives would have to be closed out ahead of the maturity date, possibly causing heavy losses. FMS-WM was still able to wind up parts of these asset swap packages in fiscal year 2021. The balance of hidden losses and reserves for securities and derivatives declined by EUR 1.2 billion year-on-year to EUR –13.7 billion as at 31 December 2021. It is still the case that selling all exposures immediately while at the same time closing out the related derivatives would only be possible at a considerable loss.

FMS-WM was able to continue to reduce the complexity of the portfolio in fiscal year 2021 and implement further measures aimed at achieving the medium-term objectives. As in the previous year, for example, the number of countries in which exposures are still held was reduced by a further four countries in 2021. The currencies contained in the portfolio were likewise further reduced to 11 currencies at the present time.

Number of countries and currencies in portfolio reduced further

Of the portfolio segments, the underlying sectors and fields in the *"Infrastructure"* segment were once again the most heavily impacted by the COVID-19 pandemic in fiscal year 2021. Nevertheless, further successes were achieved in wind-up activities in 2021. Among others, the portfolio's last remaining financing arrangements in Norway and Chile were wound up. As these financing arrangements related to toll roads, the unwinding of the exposures also further reduced the traffic-dependent risk in the portfolio.

In the *"Structured Products"* portfolio segment, FMS-WM's holdings still include some residential mortgage-backed securities (RMBS). For a long time, these products dating back to before the financial crisis were illiquid and could only be traded in the market at a heavy loss, if at all. Thanks to the very favourable liquidity environment in the second half of 2021, FMS-WM was able to wind up some of these exposures at only a small discount.

In the case of *customer derivatives*, FMS-WM was also successful in its wind-up activities, as it was able to close out several of these extremely complex and high-maintenance transactions early. In particular, the closing-out of all customer derivatives still outstanding in the USA was a significant step forward in reducing complexity in FMS-WM's portfolio.

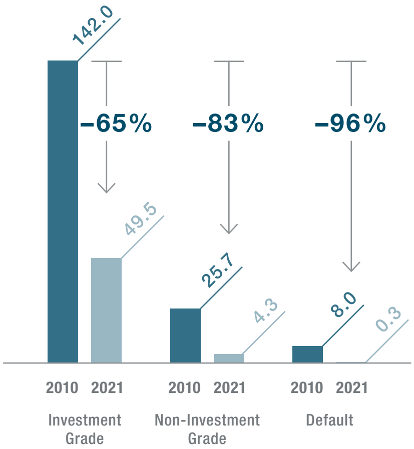
In fiscal year 2021, FMS-WM wound down exposures from the *Public Sector segment* on the market prior to maturity so as to limit any further increase in the concentrations of risk in the portfolio. In the case of European loan exposures, FMS-WM was able to achieve the early winding-up of several long-dated and very illiquid financing arrangements. For example, financing for hospitals in the Baltic region was repaid to FMS-WM early based on the initiative of FMS-WM.

Although the consequences of the war in Ukraine will have a negative impact on global economic growth, a sharp widening of credit spreads in the Public Sector segment was not discernible at the time of preparing the annual financial statements for the period ended 31 December 2021. In the event of a further escalation of the war, an expansion of the credit spreads in the Public Sector segment cannot be ruled out.

Despite the pandemic situation prevailing in fiscal year 2021, the credit quality in FMS-WM's portfolio did not deteriorate. Once again, the portfolio was unaffected by credit losses and significant deferred-payment measures in 2021. The ratings of FMS-WM's borrowers and issuers were continually adjusted in line with the current COVID-19 situation in fiscal year 2021.

DEVELOPMENT OF THE FMS-WM PORTFOLIO'S RATING DISTRIBUTION

(NOMINAL VOLUME IN EUR BILLION)



At 92%, the percentage of investment grade financing remains at a high level. The majority of the borrowers and issuers of securities in FMS-WM's portfolio are state and regional governments, municipalities, public law entities and semi-public companies. Furthermore, most of the project financing still in the portfolio is not in the sectors negatively affected by the COVID-19 pandemic. Overall as at 31 December 2021, FMS-WM does not expect any further increased default risks as a result of the COVID-19 pandemic. The state of war as a result of the Russian Federation's invasion of Ukraine on 24 February 2022 and the ensuing reciprocal sanctions may have a dampening effect on the growth of economies and sectors of the economy. 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.

Positive outcome in winding up the DEPFA Group

FMS-WM was able to successfully carry out the task of winding up the DEPFA Group within seven years. On 13 May 2014, the Federal Republic of Germany's inter-ministerial steering committee and the General Meeting of Hypo Real Estate Holding (HRE) had decided the DEPFA Group in Dublin should be transferred to FMS-WM rather than sold to an investor. Having sold the much-shrunken DEPFA Group in fiscal year 2021, FMS-WM has now completed this task. The net income achieved since 2014 in connection with the wind-up and sale has by far exceeded the original projections and expectations.

On 19 December 2014, ownership transferred from HRE to FMS-WM on terms that HRE had previously negotiated for DEPFA with an external bidder. The purchase price was EUR 320 million plus incidental acquisition expenses.

All value levers for successfully winding up DEPFA realised

FMS-WM carried out the first wind-up activities ahead of and in the first few months after the transfer of ownership.

In May 2015, FMS-WM purchased DEPFA Group hybrid capital bonds for approximately 60% of their nominal value. More specifically, these comprised three bonds with a total nominal value of EUR 1.1 billion. In January 2015, FMS-WM had already entered into binding agreements with a majority of the holders of those bonds regarding a tendering.

In fiscal years 2018 and 2019, FMS-WM sold the hybrid capital bonds to the issuers at market value. In return, FMS-WM acquired exposures from DEPFA Group companies, also at market value. The sale of the hybrid capital bonds made a positive contribution to FMS-WM's earnings of EUR 377 million in total in 2018 and 2019. This means that FMS-WM used one of its main value levers very early on.

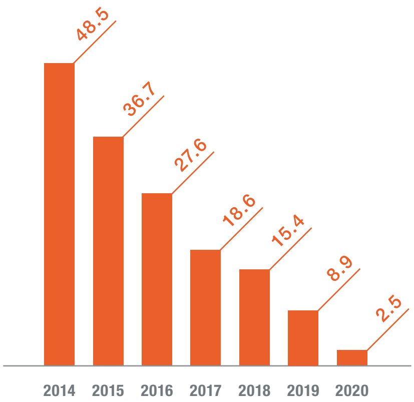
Another value lever for successfully winding up the DEPFA Group was to buy up DEPFA debt instruments (DEPFA liabilities) on the market. The public buyback programme initiated by FMS-WM for covered bonds enabled the wind-up of DEPFA's two mortgage bank subsidiaries to be sped up. At the same time, FMS-WM purchased additional DEPFA liabilities that had been issued through private placements conducted by DEPFA.

FMS-WM acquired DEPFA Group exposures in complex ALM transactions

FMS-WM subsequently sold the repurchased DEPFA liabilities of EUR 8.2 billion and in return purchased DEPFA Group companies' exposures totalling EUR 8.8 billion. FMS-WM also sold subordinated DEPFA liabilities that were already in its portfolio with a nominal value of EUR 0.4 billion to DEPFA and, in return, acquired exposures with an equivalent nominal value from DEPFA Group companies. These asset-liability management (ALM) transactions were conducted on market terms and made a significant contribution to enabling the DEPFA Group to sharply reduce its total assets.

TOTAL ASSETS, DEPFA GROUP

(IN EUR BILLION AT YEAR-END)

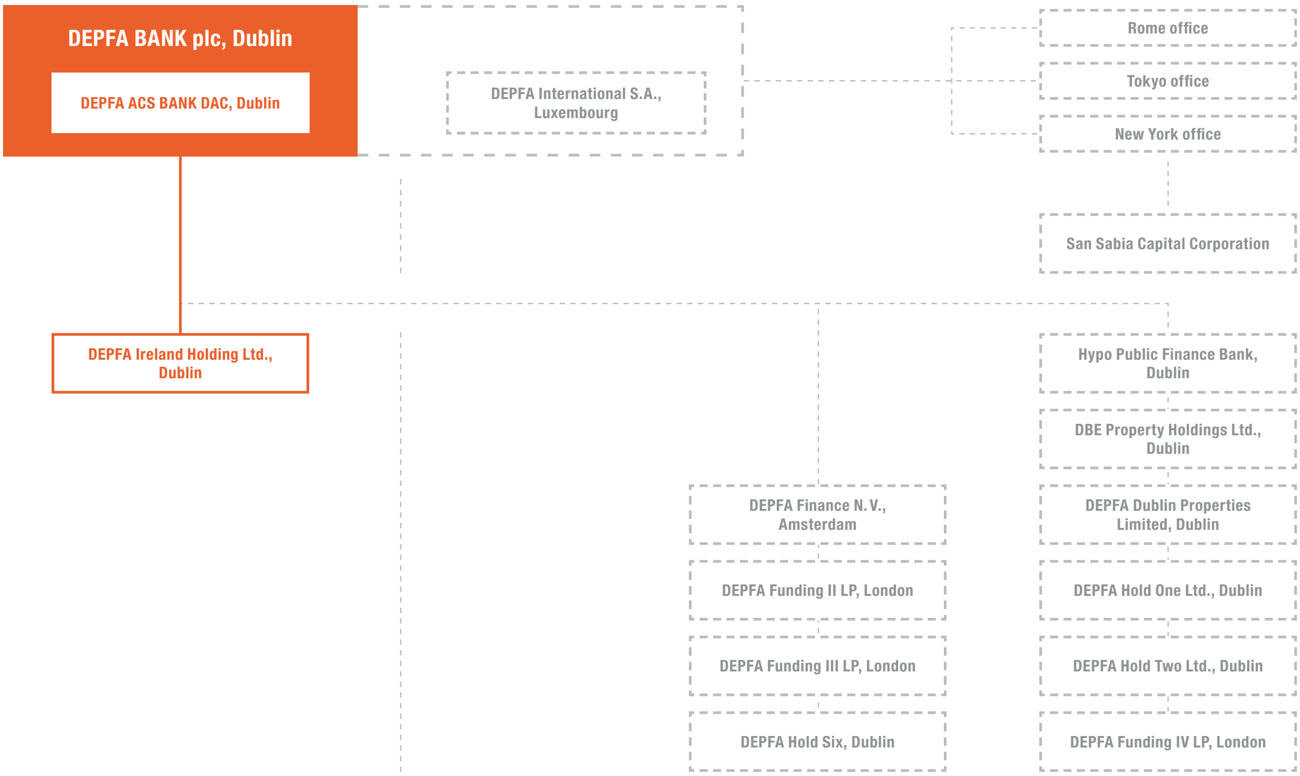


The DEPFA Group companies' exposures acquired by FMS-WM by way of the ALM transactions, all of which have good investment grade ratings, also increase FMS-WM's interest contributions.

One important project addressed the DEPFA Group's extensive derivatives portfolio. The restructuring and closing-out of derivatives also made a significant contribution to quickly reducing the DEPFA Group's total assets.

LEGAL STRUCTURE AS AT 31 DECEMBER 2020

STRUCTURE ALREADY WOUND UP SINCE DECEMBER 2014



From the outset, FMS-WM leveraged the funding advantages it enjoys as a result of its rating and the explicit guarantee from the FMS to generate synergies on the funding side at DEPFA, too.

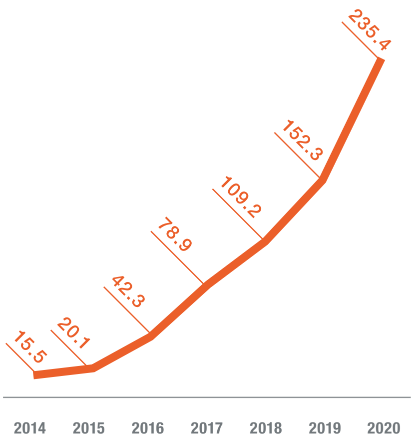
For this purpose, FMS-WM set up a Group Treasury function, which coordinated and optimised funding activities across all units. The aim of unwinding or replacing unsecured and therefore expensive funding instruments at the DEPFA Group was achieved and the related potential for savings realised.

Since its acquisition by FMS-WM, the DEPFA Group's organisational structure had been streamlined significantly due to the closure of international branch offices, affiliates and licensed subsidiaries. The DEPFA Group's last international affiliate, DEPFA International S.A. in Luxembourg, was liquidated in fiscal year 2020. In addition, synergies with the FMS-WM Group led to a continuous reduction in costs at the DEPFA Group itself.

These extensive restructuring measures were systematically implemented over the years and contributed to the fact that DEPFA's pre-tax loss declined sharply to EUR 53 million in 2015 and a profit was even achieved in each of the two years that followed.

The DEPFA Group's Tier 1 capital (CET1) ratio, which had been 15.5% upon its acquisition at the end of 2014, had increased continuously and peaked at 235.4% as at 31 December 2020.

TIER 1 CAPITAL RATIO, DEPFA GROUP
(AT YEAR-END)



Due to the well-above-average level of capital reached by systematically implementing the value levers for the DEPFA Group's wind-up, DEPFA was able to distribute EUR 150 million in 2020.

Successful sale marks the completion of the wind-up task for the DEPFA Group

Since 2017, the Executive Board of FMS-WM had devoted considerable attention to the question of whether it would be possible and make sense to sell the much-shrunken DEPFA Group, thereby enabling FMS-WM to successfully complete the wind-up task.

In summer 2020, FMS-WM initiated the sale of its DEPFA shares by launching an open, transparent and non-discriminatory auction process. Following the process that had been very competitive despite the pandemic conditions, FMS-WM signed the agreement with BAWAG P.S.K. AG for the sale of the shares in DEPFA on 15 February 2021.

The sale of the shares in DEPFA closed on 19 November 2021 following approval by the supervisory authorities. All of FMS-WM's remaining funding lines for DEPFA were terminated in this context.

Various value levers had been identified and used since FMS-WM's acquisition of the DEPFA Group. By purchasing debt instruments from companies of the DEPFA Group, FMS-WM paved the way for it to successively acquire DEPFA Group companies' exposures from 2016 onwards, which has since had a positive impact on FMS-WM's net interest income. The total assets of the DEPFA Group were reduced from EUR 48.5 billion at the end of 2014 to EUR 2.5 billion at the end of 2020, which contributed significantly to returning the DEPFA Group to saleability. In 2018 and 2019, FMS-WM generated a disposal gain of EUR 377 million by purchasing and reselling DEPFA Group companies' hybrid capital bonds. Taking into account the gain on the sale of the shares in DEPFA as well as other realised and budgeted income directly or indirectly related to the acquisition of the DEPFA Group, in particular as a result of the acquired exposures, the economic benefit to FMS-WM of acquiring and winding up the DEPFA Group comes to over EUR 1.0 billion.

In fiscal year 2021, FMS-WM successfully completed and therefore fully met the task of winding up the DEPFA Group. The value created since the acquisition of the DEPFA Group has by far exceeded original expectations. It has been confirmed that the wind-up of the DEPFA Group by FMS-WM has been a very favourable option compared with the privatisation that was not carried out in 2014. The successful wind-up of the DEPFA Group in fiscal year 2021 is also an important step towards achieving FMS-WM's medium-term objectives.

Cost-effective funding

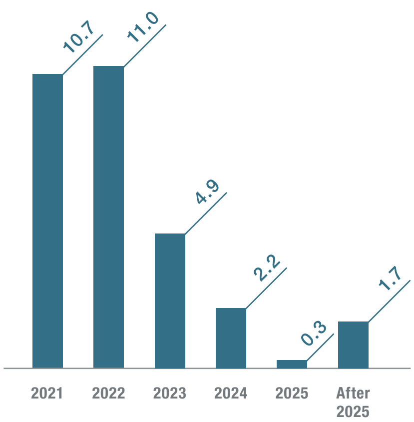
FMS-WM continues to hold the highest ratings from rating agencies Standard & Poor's and Moody's due to the loss compensation obligation contained in the Charter and the explicit direct guarantee from the FMS.

Since January 2019, longer-term EUR-denominated funding of FMS-WM has been carried out by borrowing via the FMS. After the funding facility available via the FMS was increased from EUR 30 billion to EUR 60 billion at the end of 2020, FMS-WM obtained new funding of EUR 30.4 billion in fiscal year 2021. The funding volume obtained via the FMS therefore increased to EUR 55.0 billion at the end of 2021. FMS-WM raised a further EUR 4.0 billion of funding via the FMS in the first quarter of 2022.

Funding via the FMS expanded further

The borrowings in EUR via the FMS were used partly as cost-effective funding to cover the GBP funding requirement. To this end, long-term foreign exchange derivatives were taken out and the funding structure of long-dated GBP exposures was optimised for the long term.

MATURITIES OF OUTSTANDING EUR CAPITAL MARKET ISSUES
(EQUIVALENT VALUE IN EUR BILLION)



FMS-WM itself continues to ensure additional long-term funding in foreign currencies (particularly in USD and GBP) and short-term money market funding. In fiscal year 2021, most short-term fund raising was ensured via the two established money market programmes (European commercial paper programme and US commercial paper programme). The two programmes had a funding volume equivalent to EUR 23.4 billion at 31 December 2021.

FMS-WM has worked systematically through the challenges posed by the overhaul of benchmark interest rates for floating-rate financial instruments (benchmark reform) on the Post-IBOR project established for this purpose and in fiscal year 2021 successfully implemented the necessary technical changes.

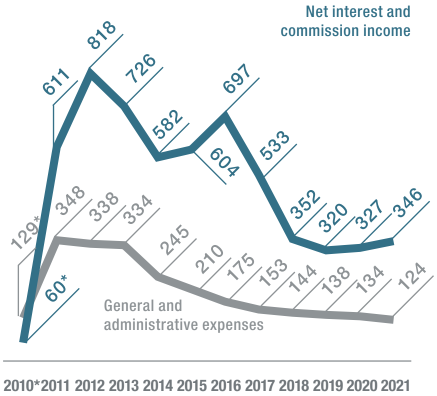
Portfolio management

Net interest and commission income was up year-on-year to EUR 346 million (previous year: EUR 327 million) due mainly to more favourable funding as a result of the borrowings via the FMS.

FMS-WM achieved a further year-on-year reduction in general and administrative expenses of 8% to EUR 124 million. Total net interest and net commission income therefore continues to exceed general and administrative expenses by far.

NET INTEREST AND COMMISSION INCOME VS. ADMINISTRATIVE COSTS

(IN EUR MILLION)



*Short fiscal year

Overall in fiscal year 2021, further progress was made in paving the way to reduce administrative expenses. All measures planned for fiscal year 2021 were implemented successfully and the envisaged reductions in administrative expenses were achieved in full. Some steps were also brought forward; for example, the measures to reduce rating costs were completed much sooner than originally planned. The sale of the shares in DEPFA also resulted in savings on administrative expenses. Further projects were initiated, such as evaluating the potential for savings on software licence costs.

Also in fiscal year 2021, FMS-WM retendered the outsourcing agreements for all IT services through a public tender procedure in light of the fact that the existing agreements will end in 2022. As the portfolio is progressively unwound, the aim is to transition to a more dynamic and agile IT operating model by making IT costs more flexible. The gradual simplification of FMS-WM's application landscape in recent years enable the implementation of a modern and viable IT operating model and ultimately a reduction and greater flexibility in administrative expenses.

The tender content was adapted in line with the changes in FMS-WM's requirements and current developments in information technology. In addition to using cloud services, FMS-WM is now turning to a multi-provider model and has subdivided future service provision into four areas: end-user computing, infrastructure, subledger applications and general ledger applications. Following an intensive negotiation phase, FMS-WM awarded the outsourcing contracts at the end of September 2021 as planned.

Simplified application landscape enabled reduction and flexibilisation of administrative expenses

End-user computing and IT infrastructure were awarded to Fujitsu Technology Solutions GmbH with its combined offering. In the case of subledger applications, FMS-WM will continue its collaboration with the existing service provider, IBM Deutschland GmbH. CGI Deutschland BV & Co. KG will in future provide FMS-WM with services around general ledger applications.

Immediately after the awards were made, FMS-WM initiated a migration project with the aim that the further developed IT services can be provided by the new service providers as of the fourth quarter of 2022. By successfully awarding the contracts, FMS-WM is also paving the way to implement digitalisation projects for innovative IT operations and further expand IT security and compliance elements. The primary requirement remains to ensure that FMS-WM and FMS-SG operate smoothly.

As the portfolio is progressively unwound, FMS-WM's focus also remained on winding up the investment structures taken over from the HRE Group with the aim of further simplifying the organisational structure. By selling the shares in DEPFA, FMS-WM reached a major milestone in unwinding its equity investments in fiscal year 2021. As at 31 December 2021, FMS-WM holds just one significant equity investment, FMS-SG. Since 2010, FMS-WM has been directly or indirectly invested in a total of 56 companies in different jurisdictions, mostly as a majority owner. As at 31 December 2021, the number of equity investments was reduced to four.

Employees

As at 31 December 2021, 103 people were employed at FMS-WM and 259 at FMS-SG. Motivated, committed and loyal employees were crucial to fulfilling the wind-up task in fiscal year 2021 and will remain a crucial factor going forward. Each and every one of us should be able to optimally contribute his or her individual skills and experience and undertake continuing personal development, even against the backdrop of a wind-up scenario. Key elements of staff development efforts, and a central pillar for long-term employee loyalty and identification with FMS-WM, include continual feedback on performance, as well as forward-looking, systematic and needs-based continuing professional development planning.

As classroom training sessions were again only possible to a very limited extent in fiscal year 2021 due to the restrictions imposed as a result of the COVID-19 pandemic, FMS-WM largely offered virtual formats. These formats and virtual events also served to strengthen team spirit in a situation in which most FMS-WM employees were working from home.

We are actively meeting the changes in the working environment triggered by the pandemic by developing a new, hybrid office model for ourselves, which will be implemented in 2022. We intend to address the reduction in physical presence due to increased mobile working among colleagues while at the same time creating opportunities for flexible, agile working and in-person meetings. Applying the hybrid approach, we wish to effectively and efficiently combine mobile working and on-site activity and exploit the advantages this offers.

Day-to-day work on the FMS-WM team depends on employees working together as equals as well as on transparency and participation. To continue fulfilling the task of winding up the portfolio and for the impending change processes required to achieve its medium-term goals, the FMS-WM Group must remain a flexible and adaptable organisation. To support this goal, we launched an agile transformation process together with FMS-SG in spring. We are embracing the agile mindset and learning what agile management principles mean. Applying the agile approach at cross-team level, we have already implemented several projects successfully.

We promote identification with FMS-WM through a diverse range of measures for our employees, which we develop further in line with requirements. One prime example in fiscal year 2021 is our work-life balance campaign, explicitly for young fathers as well. Our open corporate culture provides the foundation for the successful implementation of flexible working models and part-time working. Young fathers at FMS-WM – our working dads – feel very well supported and see the open approach to part-time working as a reason to remain loyal to FMS-WM as an employer.

We transmit our employer brand “Einzigartig. Endlich. Echt.” (“Unique. Finite. Authentic.”) through various communication channels and present ourselves as an attractive employer, especially on the relevant career platforms. We wish to be perceived as a transparent and modern public-sector enterprise with demanding and challenging assignments and an exceptional, but finite task.

It is essential that we have a visible corporate identity in competing for qualified and motivated applicants. In fiscal year 2021, employee turnover continued to decline compared with previous years. Our goal remains to keep this low so as to ensure FMS-WM’s operational stability.

Outlook

FMS-WM continued to work successfully on achieving its medium-term objectives in fiscal year 2021. The implementation of these objectives is aimed at ensuring operational stability and a sustainable cost structure in the future that takes into account all risks within the portfolio.

In order to successfully adapt the business model, we need to further reduce the complexity of FMS-WM's portfolio, thereby enabling risk-related and administrative expenses to be cut significantly over the period of the wind-up.

By gradually implementing measures towards a simplified portfolio, FMS-WM intends to extend the options available for its further management. These also include the option to transfer the management of the portfolio to third parties if the costs internally become too high or FMS-WM's operational stability can no longer be ensured. Overall, FMS-WM is on schedule in implementing the medium-term objectives and will continue to pursue them purposefully in 2022.

Despite the fact that the progressive unwinding of the portfolio will entail a further reduction in current income, FMS-WM expects at least a breakeven result from ordinary activities for fiscal year 2022. At the time of preparing the annual financial statements for the period ended 31 December 2021, there had not been any concrete indications that contradict this forecast, even taking into account the war situation in Ukraine since the end of February 2022. Nevertheless, the war situation in Ukraine and any associated consequences may have a negative impact overall on the unwinding of the portfolio anticipated in fiscal year 2022, the further development of the operating model and the course of business in 2022.