A SUCCESSFUL FISCAL YEAR 2019

Christoph Müller, Spokesman of the Executive Board

Carola Falkner, Member of the Executive Board

Despite the challenging market environment, fiscal year 2019 saw FMS Wertmanagement (FMS-WM) continue its successful wind-up activities and achieve a positive result for the year, its eighth in succession. *The result from ordinary activities* came to EUR 253 million in 2019, a sharp increase on the prior-year figure. The result was driven mainly by the gain on the sale to DEPFA Group companies of two DEPFA hybrid capital bonds acquired in fiscal year 2015 and a dividend payment disbursed by a UK subsidiary that has been successful in winding up commercial real estate loans in recent years.

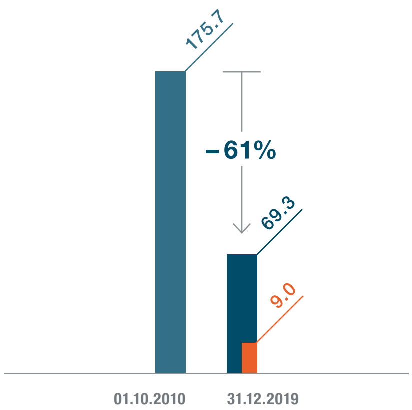
At EUR 23 million, the balance of risk provisions and net income from investments – both income statement items influenced by valuation decisions and sales results – made a positive contribution to earnings in fiscal year 2019 (previous year: EUR –105 million). This is due in particular to the active work to wind up the portfolio.

To a significant extent, the highly satisfactory result is attributable to the tremendous capabilities and hard work of the FMS-WM, FMS Wertmanagement Service GmbH (FMS-SG) and DEFPA Group employees, to whom we express our heartfelt thanks.

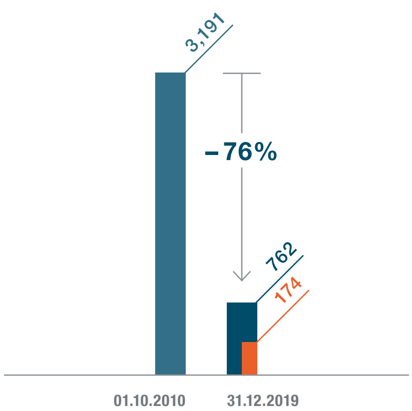
FMS-WM's statutory auditor audited the annual financial statements as at 31 December 2019 and the management report for fiscal year 2019 and issued an *unqualified auditors' report*. At its meeting on 1 April 2020, the Supervisory Board approved the annual financial statements as prepared by the Executive Board of FMS-WM.

FMS-WM OVERALL PORTFOLIO

DEVELOPMENT OF THE NOMINAL VOLUME
(IN EUR BILLION)



NUMBER OF COUNTERPARTIES



Achieving maximum value in winding up the portfolio and the DEPFA Group

The nominal value of FMS-WM's portfolio rose by a total of EUR 0.3 billion since the 2018 reporting date. Portfolio wind-up came to EUR 5.0 billion in fiscal year 2019. Including the assets with a nominal value of EUR 4.0 billion acquired from DEPFA Group companies in fiscal year 2019 and foreign currency effects of EUR 1.3 billion that increase the nominal value of the portfolio, FMS-WM's remaining portfolio amounted to EUR 69.3 billion as at the end of 2019.

The number of counterparties in FMS-WM's portfolio fell by 8.2% in 2019 to 762. Originally, there were 3,191 counterparties in the portfolio. The number of remaining exposures has dropped by 78% since 1 October 2010 to 1,591.

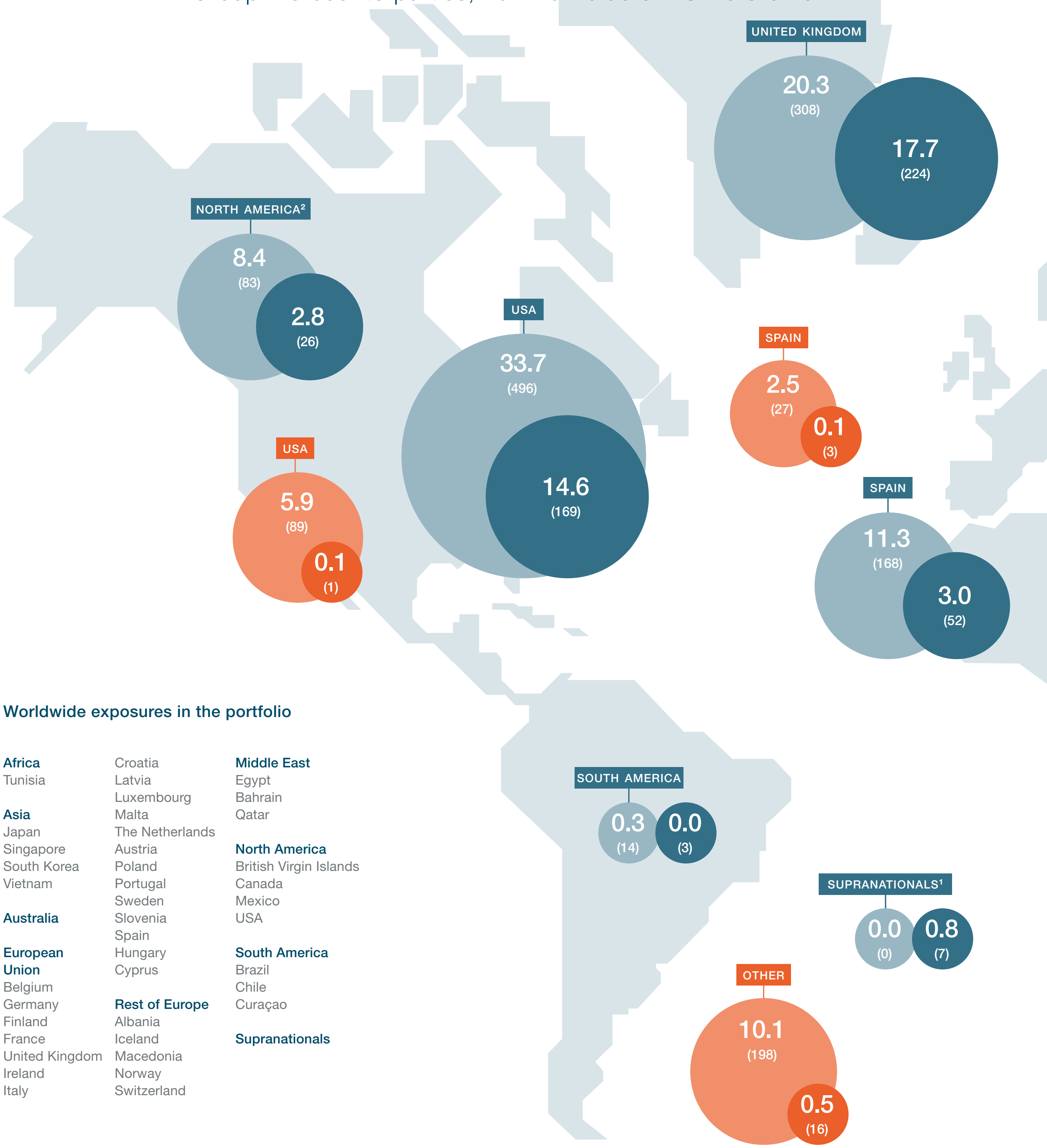
The individual exposures are located in 42 countries (see chart on pages 4 and 5), with significant concentrations in the United Kingdom, Italy and the USA. The share of the portfolio attributable to these three countries is now around 71%. Since the portfolio was taken over, the number of countries in which FMS-WM holds exposures has been reduced by 24.

Upon acquisition in 2010, the wind-up portfolio taken over from the HRE Group had unusually high concentrations of risk and a high proportion of illiquid exposures with very long maturities. These exposures are mostly part of asset swap packages in which they are attached to derivatives that are used to hedge interest rate, inflation or currency risk. If exposures were sold prematurely, those derivatives would have to be closed out ahead of the maturity date.

Despite the challenging market environment, in fiscal year 2019 FMS-WM sold parts of these asset swap packages, for example from the *"Public Sector"* segment, on the market prior to maturity to limit any further increase in the concentration of risk. Excluding the additions attributable to assets taken over from DEPFA Group companies and foreign currency effects, the largest segment was reduced by EUR 2.3 billion in fiscal year 2019.

The portfolio

FMS-WM: 762 counterparties, nominal value of EUR 69.3 billion in 42 countries [1]
DEPFA Group: 25 counterparties, nominal value of EUR 0.9 billion



Worldwide exposures in the portfolio

Africa
Tunisia

Asia
Japan
Singapore
South Korea
Vietnam

Australia

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

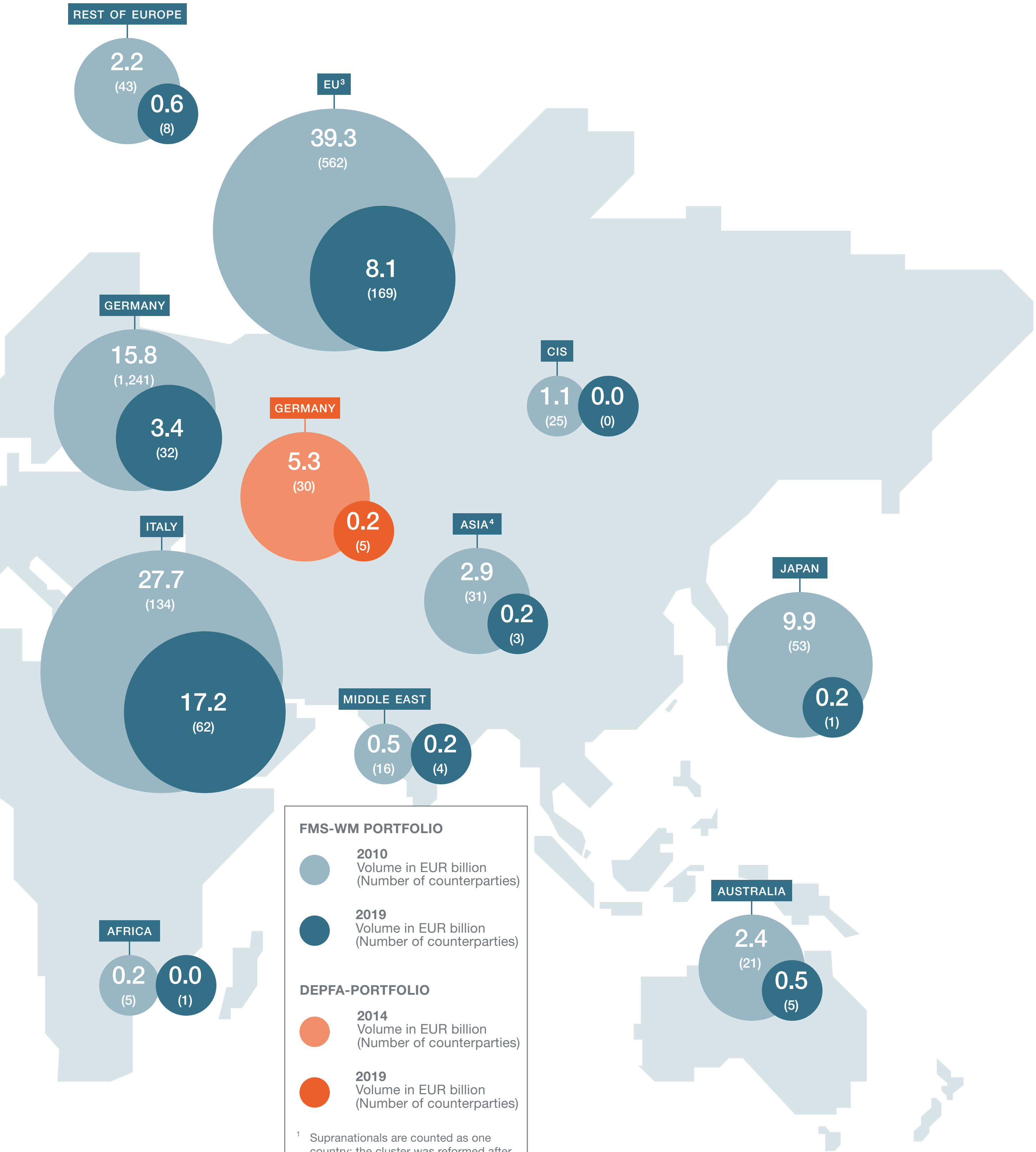
Rest of Europe
Albania
Iceland
Macedonia
Norway
Switzerland

Middle East
Egypt
Bahrain
Qatar

North America
British Virgin Islands
Canada
Mexico
USA

South America
Brazil
Chile
Curaçao

Supranationals



FMS-WM PORTFOLIO

2010
Volume in EUR billion
(Number of counterparties)

2019
Volume in EUR billion
(Number of counterparties)

DEPFA-PORTFOLIO

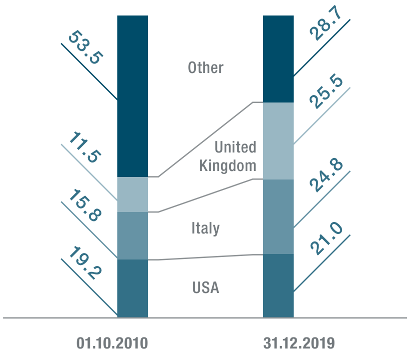
2014
Volume in EUR billion
(Number of counterparties)

2019
Volume in EUR billion
(Number of counterparties)

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

PORTFOLIO DISTRIBUTION BY COUNTRY

(IN % OF NOMINAL VOLUME)



Overall, however, the options for an even swifter unwinding are limited, as the still very high negative balance of hidden losses and hidden reserves for securities and derivatives in the amount of EUR 16.4 billion shows that selling all exposures immediately, while at the same time closing out the derivatives, would only be possible at a considerable loss.

In addition to the concentrations of risk and the high hidden losses, it is mainly the complexity in the portfolio that poses a particular challenge to FMS-WM in its further wind-up activities. Among other things, this requires comprehensive risk management and extensive efforts to account for the exposures and map them to appropriate IT systems.

FMS-WM's *"Structured Products"* segment includes structured credit instruments such as commercial mortgage-backed securities (CMBS), with regional concentrations in the USA and therefore in USD. In 2019, FMS-WM wound up the last remaining transactions in a highly complex sub-portfolio transferred in 2010 as a US CMBS trading strategy without affecting profit or loss. In this case, the hold strategy initially chosen, combined with a positive outlook on the commercial real estate market in the USA, proved to be successful.

FMS-WM made further progress in winding up *customer derivatives*, which are financing structures agreed with local and regional public-sector authorities. In fiscal year 2019, portfolio managers were able to close out a very complex French customer derivative with associated legal risk, as well as the associated counter-hedging transaction.

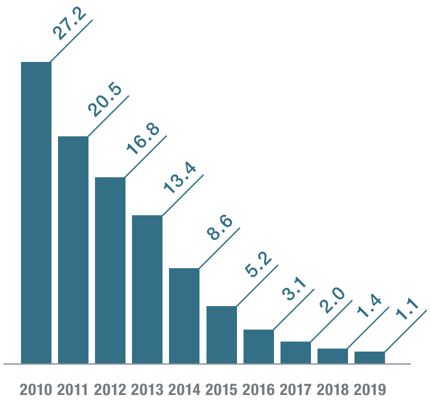
Measures implemented to reduce the portfolio's complexity

The wind-up of the *"Commercial Real Estate"* segment progressed successfully in fiscal year 2019. For example, FMS-WM initiated the wind-up of a UK hospital operator's significant loan exposure by way of a company sale and carried it out successfully in fiscal year 2020. Beforehand, FMS-WM had taken significant steps to restructure the exposure; only once this restructuring had been carried out did a sale become possible. FMS-WM likewise initiated a portfolio sale related to German and UK financings in fiscal year 2019 and carried it out successfully in fiscal year 2020.

In the course of these two transactions in the first quarter of 2020, the Commercial Real Estate segment's remaining nominal value of EUR 1.1 billion as at the end of 2019 was reduced to a nominal value of EUR 0.4 billion, with just eight remaining borrowers with comparatively short remaining maturities.

COMMERCIAL REAL ESTATE DEVELOPMENT OF THE NOMINAL VOLUME

(IN EUR BILLION)



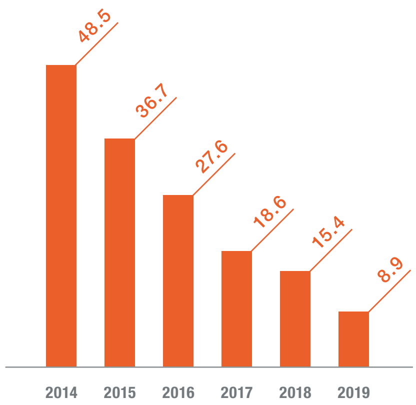
At the time of the transfer, this segment comprised more than 3,500 individual exposures and thus made up almost half of all acquired positions in FMS-WM's portfolio. Since 2010, FMS-WM has been able to unwind this segment swiftly and yet in a way that has preserved value.

In fiscal year 2019, as in previous years, FMS-WM implemented key measures aimed at winding up the *DEPFA Group in a way that maximises value*.

FMS-WM continued its successful strategy of selling DEPFA Group bonds and promissory notes (DEPFA liabilities) purchased on the market to DEPFA Group companies in order to acquire assets from DEPFA Group companies in return. Since 2016, assets with nominal volume of EUR 11.7 billion have been acquired from the DEPFA Group by FMS-WM.

TOTAL ASSETS, DEPFA GROUP

(IN EUR BILLION AT YEAR-END)



The wind-up measures implemented in fiscal year 2019 enabled a further reduction in the DEPFA Group's total assets and in the complexity and concentrations of risk in the DEPFA Group's portfolio. The sale of hybrid capital bonds with a nominal value of EUR 625 million already held in FMS-WM's portfolio resulted in a positive contribution to FMS-WM's earnings in the amount of EUR 233 million.

In addition, DEPFA Group subordinated loans with a nominal value of EUR 360 million that had been transferred from the HRE Group to FMS-WM in 2010 were sold to the DEPFA Group. The Irish banking regulator had approved the reduction in the DEPFA Group's capital resources ahead of the transaction. In addition, the assets acquired by FMS-WM from the DEPFA Group's portfolio increase FMS-WM's interest income.

Hybrid capital bonds as a value lever fully utilised

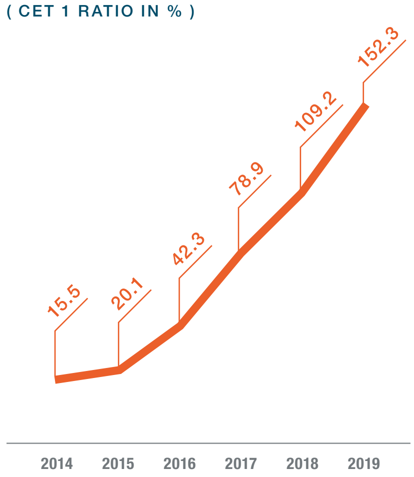
The measures implemented in 2019 with a view to accelerating the wind-up of the DEPFA Group also enabled the *funding support* that FMS-WM provides to the DEPFA Group to be reduced significantly. The unwinding of unsecured and therefore expensive funding instruments has largely been completed and the potential for savings realised. It was also possible to continue unwinding the DEPFA Group's derivatives portfolio.

In addition, the DEPFA Group's organisational structure was further simplified in fiscal year 2019. Following the hybrid capital transactions, companies and funding vehicles no longer required were liquidated or had their liquidation initiated. It was also possible to return the banking licence held by DEPFA International S.A. in Luxembourg. The *process to liquidate DEPFA International S.A.* is to be initiated in 2020.

Helped by the transactions carried out with FMS-WM in 2019, the DEPFA Group's *total assets* fell by a further EUR 6.5 billion to EUR 8.9 billion as at the end of 2019. The risks in the DEPFA Group were also further reduced. Overall, total risk-weighted assets fell by EUR 332 million to EUR 551 million in fiscal year 2019, another sharp decrease that helped lift the Tier 1 capital (CET1) ratio to 152.3% by the end of 2019.

TIER 1 CAPITAL RATIO, DEPFA GROUP

(CET 1 RATIO IN %)



As a result of one-off effects of transactions with FMS-WM, the DEPFA Group's earnings before taxes were well below prior-year earnings at EUR –95.1 million. The number of DEPFA employees fell from 209 at the end of 2014 to 107 at the end of 2019. The DEPFA Group's general and administrative expenses were thus reduced by a significant 40% during the same period.

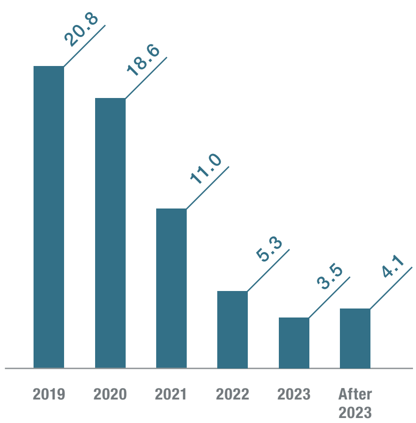
Cost-effective funding

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

On schedule in January 2019, long-term EUR-denominated funding was taken over by Bundesrepublik Deutschland Finanzagentur GmbH (German Finance Agency) through the FMS. FMS-WM raised a total of EUR 25.0 billion of funding from the FMS in fiscal year 2019. FMS-WM itself continues to ensure long-term funding in foreign currencies (particularly in USD and GBP) and short-term money market funding.

MATURITIES OF OUTSTANDING EUR CAPITAL MARKET ISSUES

(EQUIVALENT VALUE IN EUR BILLION)



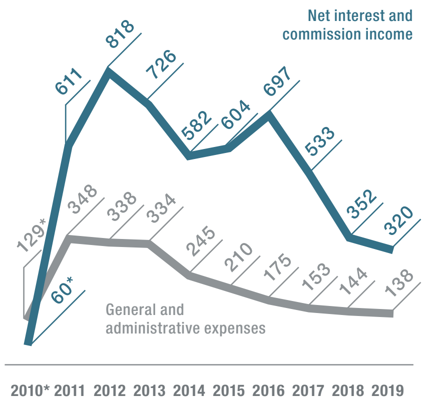
A strong presence and access to investors in local markets, combined with active funding management, enabled FMS-WM's funding terms to be further optimised. For example, FMS-WM successfully placed its first GDP-denominated benchmark bond referenced to SONIA (Sterling Overnight Index Average) in the amount of GBP 500 million.

Portfolio management

General and administrative expenses declined by 4.2% year-on-year to EUR 138 million due in part to savings in portfolio management. *Net interest income* was down year-on-year to EUR 325 million (previous year: EUR 348 million) due to the progressive unwinding of the portfolio. As in the previous year, however, general and administrative expenses were well below current income from the portfolio.

NET INTEREST AND COMMISSION INCOME VS. ADMINISTRATIVE COSTS

(IN EUR MILLION)



*Short fiscal year

In fiscal year 2019, measures were implemented to create the potential for savings on administrative expenses. This requires a reduction in the portfolio's complexity. One good example here is the almost complete closure of the CRE segment. In the course of this simplification of the portfolio, IT systems previously required for the CRE segment can be deactivated and administrative expenses in this area cut.

Administrative expenses also include expenses for IT projects. The focus of these projects is on the dismantling and simplification of the IT system landscape taken over from the HRE Group and thus on future reductions in IT expenses. In fiscal year 2019, for example, attention centred on successfully consolidating FMS-WM's two general ledger systems. Overall, the projects have already enabled 17 applications to be deactivated.

In addition, measures were initiated to simplify the corporate management and optimise the organisational structure of FMS-WM and its service entity. At the end of 2019, FMS-SG, which since 2013 has provided extensive services to enable FMS-WM to fulfil its wind-up task, decided to discontinue operations at the New York branch over the medium term and only provide services from its sites in Dublin and Unterschleißheim in the future.

Reorganisation

In connection with a change on the Executive Board, FMS-WM did not appoint a new Chief Operating Officer with effect from 1 October 2019. The responsibilities of the existing Executive Board division were taken over by Christoph Müller as Spokesman of the Executive Board and Chief Executive Officer and Carola Falkner as Executive Board member with responsibility for Treasury and Asset Management.

Change of leadership on the Executive Board and the Supervisory Board of FMS-WM

Christoph Müller has divisional responsibility for Human Resources, Finance, Controlling & Portfolio Steering, Risk Controlling & Quantitative Analytics, the Communications and Committees staff unit and, as of 1 October 2019, IT, Sourcing & Operations.

Carola Falkner assumed responsibility for Group Treasury, Asset Management and Group Internal Audit upon joining the Executive Board on 1 July 2019 and for Legal & Group Compliance as of 1 October 2019.

Jan Bettink, the long-serving Chairman of the Supervisory Board, retired from the Supervisory Board of FMS-WM when his term of office ended at the beginning of 2020. Dr. Michael Kemmer took over as Chairman of the Supervisory Board on 6 February 2020. Dr. Holger Horn was also newly appointed to the Supervisory Board. He replaces Ingo Mandt, who stepped down from the Supervisory Board in November 2019.

In fiscal year 2019, the Supervisory Board once again closely oversaw the work being carried out to wind up FMS-WM's portfolio in a way that maximises value. The Supervisory Board advised the Executive Board of FMS-WM on strategic, risk-related and business decisions and monitored their implementation.

Employees

As at 31 December 2019, FMS-WM had 103 employees and FMS-SG 293 employees, every one of whom made a crucial contribution to a successful fiscal year 2019.

FMS-WM – an employer with a unique mission

Qualified, motivated and loyal employees remain essential to FMS-WM's ability to ensure operational stability in fulfilling the wind-up task, especially in light of the particular challenges that the task brings. The wind-down scenario and the resulting finite nature of the organisation require us to devote continual attention to *retaining* our employees.

The LIKE project launched in 2018 was continued in 2019. With the successful launch of *mobile working* alongside our working time models, we are more strongly promoting flexibility in work organisation and therefore work-life balance. By doing so, we are expressing our trust in all our employees while at the same time encouraging them to take responsibility.

Vacancies were once again filled successfully through the existing employee referral programme in 2019. The many positive employee responses and pro-actively contributed ideas and initiatives show both the enthusiasm for the LIKE project and the extent to which employees identify with FMS-WM. In addition, our regular employee surveys and the leaving interviews conducted point to a considerable increase in employee satisfaction. This is a clear indication that such measures make an important contribution to FMS-WM's operational stability.

We would like to build on this success and continue to establish FMS-WM as an attractive and modern employer. We thus devote considerable time and attention to the topic of *agility* so as to best prepare both the organisation and employees for future tasks. To ensure successful, forward-looking human resources management and in light of FMS-WM's specific orientation and the related challenges, *the continued professional development of our managers* is another particular focus. The aim is to best support managers in performing their duties and enhance management qualities.

Comparable actions with the same objectives were initiated and implemented at FMS-SG and DEPFA.

In addition to the retention measures, FMS-WM once again worked continuously to develop its employer brand in 2019. Using the claim "Einzigartig. Endlich. Echt." ("Unique. Finite. Authentic."), we present ourselves to applicants as a transparent and open public-sector enterprise with demanding and challenging assignments and an exceptional, but finite task.

Our harmonised *employer brand*, extending from job advertisements through to the careers website and the integration of job platforms, aims to arouse applicants' interest and motivate them to apply to FMS-WM. Its effectiveness is reflected in the higher number of relevant applications in terms of quality and fit and the consistently positive response from candidates and employees. FMS-WM's nomination for the renowned HR Excellence Award in the "SME careers website and app 2019" category is further proof of our progress on employer branding.

Outlook

The particular challenges facing FMS-WM in its wind-up activities will persist going forward. Especially in light of the high negative balance of hidden losses and hidden reserves for securities and derivatives in the portfolio, which would only allow all exposures to be sold immediately at a considerable loss, FMS-WM has drawn up a set of *medium-term objectives* for itself. These are intended to ensure that FMS-WM continues to strike an appropriate balance between necessary (risk) management, operational stability and cost-effective portfolio management going forward.

The measures already successfully implemented in fiscal year 2019 serve to adapt FMS-WM's operating model. In particular, reducing the complexity of the portfolio enables risk-related and administrative expenses under an adapted operating model to be cut significantly over the period of the wind-up. A simplified portfolio also allows the options available for its further management to be extended. Among others, these 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 cannot be ensured. In 2020, we will again invest all our efforts in systematically continuing such measures.

In *winding up the DEPFA Group*, the successful corporate actions enabled FMS-WM to realise most of the value levers identified at DEPFA. Given the progress achieved in fiscal year 2019 and irrespective of the further wind-up strategy, FMS-WM continues to assume that winding up the DEPFA Group remains the favourable option compared with the sale that was not carried out in 2014.

FMS-WM is also continuing to examine the possibility of selling the DEPFA Group in 2020. In this context, the potential proceeds from selling the DEPFA Group are being compared against the benefits to be gained from FMS-WM continuing to wind up the DEPFA Group.

Due to the progressive unwinding of the portfolio, we expect a further decline in current income from the portfolio in fiscal year 2020. There is also the possibility that the spread of coronavirus (SARS-CoV-2 / COVID-19) could do serious and sustained damage to expected macroeconomic developments around the world. This is particularly true for economies relevant to the FMS-WM portfolio such as Italy, the United Kingdom and the USA. Even though the effects cannot be fully assessed at the moment, we have taken the necessary steps, especially to ensure stable business operations, that enable us to continue to fulfil our wind-up task in 2020. Due to the progressive unwinding of the portfolio, we expect a further decline in net interest income in fiscal year 2020. As the effects of the current turbulence on the markets are yet not clear, an earnings forecast for 2020 would be fraught with uncertainty – which is why a reliable forecast cannot be made at this time.