ANNUAL FINANCIAL STATEMENTS

BALANCE SHEET FOR THE FISCAL YEAR ENDED 31 DECEMBER 2019

of FMS Wertmanagement

Assets	in EUR thousand	in EUR thousand	31.12.2019 in EUR thousand	31.12.2018 in EUR thousand
1. Cash reserve				
Balances with central banks		6,096,607		4,868,986
Of which: with Deutsche Bundesbank EUR 6,096,607 thousand (previous year: EUR 4,868,986 thousand)				
			6,096,607	4,868,986
2. Loans and advances to banks				
a) Payable on demand		32,708,987		29,886,255
b) Other loans and advances		1,962,270		6,141,739
			34,671,257	36,027,994
3. Loans and advances to customers			15,730,822	13,299,903
Of which: secured by mortgages EUR 398,628 thousand (previous year: EUR 473,690 thousand) Public-sector loans EUR 5,104,785 thousand (previous year: EUR 5,122,579 thousand)				
4. Debt instruments				
a) Bonds and notes				
aa) Public-sector issuers	30,783,041			30,599,861
Of which: eligible as collateral for Deutsche Bundesbank advances EUR 20,065,182 thousand (previous year: EUR 20,481,026 thousand)				
ab) Other issuers	34,635,633			34,790,143
Of which: eligible as collateral for Deutsche Bundesbank advances EUR 3,776,213 thousand (previous year: EUR 4,550,136 thousand)				
		65,418,674		65,390,004
b) Own debt instruments		14,851,752		16,688,222
Principal amount EUR 14,848,128 thousand (previous year: EUR 16,685,434 thousand)				
			80,270,426	82,078,226
5. Shares and other non-fixed-income securities			0	385,676
6. Other long-term equity investments			3	3
Of which: in banks EUR 0 thousand (previous year: EUR 0 thousand) in financial services institutions EUR 0 thousand (previous year: EUR 0 thousand)				
7. Shares in affiliated companies			474,346	493,169
Of which: in banks EUR 323,274 thousand (previous year: EUR 323,274 thousand) in financial services institutions EUR 30,000 thousand (previous year: EUR 50,000 thousand)				
8. Intangible fixed assets			333	775
Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets				
9. Tangible fixed assets			170	274
10. Other assets			477,746	889,789
11. Prepaid expenses			8,768,027	6,665,427
Total assets			**146,489,737**	**144,710,222**

Equity and liabilities		in EUR thousand	31.12.2019 in EUR thousand	31.12.2018 in EUR thousand
1. Liabilities to banks				
a) Payable on demand		948,279		618,130
b) With agreed maturity or notice period		2,596,817		9,410,075
			3,545,096	10,028,205
2. Liabilities to customers				
Other liabilities				
a) Payable on demand		85,919		148,339
b) With agreed maturity or notice period		40,893,040		13,578,774
			40,978,959	13,727,113
3. Securitised liabilities				
a) Debt instruments issued		55,890,254		72,889,352
b) Other securitised liabilities		25,043,047		29,295,767
of which: Commercial paper: EUR 25,043,047 thousand (previous year: EUR 29,295,767 thousand)				
			80,933,301	102,185,119
4. Other liabilities			651,549	402,684
5. Deferred income			18,288,231	16,387,134
6. Provisions				
a) Provision for taxes		18,869		27,808
b) Other provisions		322,394		436,940
			341,263	464,748
7. Equity				
a) Subscribed capital		200		200
b) Capital reserves		1,800		1,800
c) Retained earnings				
Other retained earnings		1,513,219		1,398,420
d) Net retained profits		236,119		114,799
			1,751,338	1,515,219
Total equity and liabilities			**146,489,737**	**144,710,222**
1. Contingent liabilities				
Contingent liabilities from guarantees and indemnity agreements			657,551	768,101
2. Other obligations				
Irrevocable loan commitments			1,916,049	3,525,523

INCOME STATEMENT

of FMS Wertmanagement for the period from 1 January until 31 December 2019

Income statement	in EUR thousand	in EUR thousand	01.01.–31.12.2019 in EUR thousand	01.01.–31.12.2018 in EUR thousand
1. Interest income from				
a) Lending and money market transactions	4,769,837			4,514,923
Of which: negative interest deducted: EUR 247,021 thousand (previous year: EUR 658,111 thousand)				
b) Fixed-income securities and registered government debt	1,973,806			2,006,964
		6,743,643		6,521,887
2. Interest expenses				
Of which: positive interest deducted EUR 305,098 thousand (previous year: EUR 635,441 thousand)		–6,418,586		–6,174,103
			325,057	347,784
3. Current income from				
a) Other long-term equity investments		5		0
b) Shares in affiliated companies		49,136		0
			49,141	0
4. Income from profit pooling, profit transfer or partial profit transfer agreements			1,417	2,460
5. Commission income		13,045		16,088
6. Commission expenses		–17,844		–11,783
			–4,799	4,305
7. Other operating income			8,996	14,754
8. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	–17,476			–17,264
ab) Social security, post-employment and other employee benefit costs	–1,660			–1,698
Of which: in respect of post-employment benefits EUR 138 thousand (previous year: EUR 150 thousand)		–19,136		–18,962
b) Other administrative expenses		–118,382		–124,932
			–137,518	–143,894
9. Depreciation, amortisation and write-downs of intangible and tangible fixed assets			–547	–574
10. Other operating expenses			–11,019	–5,500
11. Write-downs of and valuation allowances on receivables and certain securities, and additions to loan loss provisions		–282,789		0
12. Income from reversals of write-downs of receivables and certain securities and from the reversal of loan loss provisions		0		310,205
			–282,789	310,205
13. Write-downs of and valuation allowances on shares in affiliated companies, other long-term equity investments and securities classified as fixed assets		0		–415,422
14. Income from reversals of write-downs of shares in affiliated companies, other long-term equity investments and securities classified as fixed assets		305,621		0
			305,621	–415,422
15. Result from ordinary activities			253,560	114,118
16. Taxes on income			–17,311	682
17. Other taxes not included in “10. Other operating expenses"			–130	–1
18. Net income for the year			236,119	114,799
19. Net retained profits			236,119	114,799

CASH FLOW STATEMENT

of FMS Wertmanagement for the period from 1 January until 31 December 2019

Cash flow statement			01.01.–31.12.2019 in EUR thousand	01.01.–31.12.2018 in EUR thousand
1.		Net income / loss for the period	236,119	114,799
		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	301,877	182,087
3.	+/–	Increase / decrease in provisions	–114,546	–66,974
4.	+/–	Other non-cash expenses / income	–105,006	832,975
5.	–/+	Gain / loss on disposal of fixed assets	–232,998	–2
6.	–/+	Other adjustments (net)	–50,559	–2,460
7.	–/+	Increase / decrease in loans and advances to banks	1,469,588	5,710,164
8.	–/+	Increase / decrease in loans and advances to customers	–2,159,297	–137,071
9.	–/+	Increase / decrease in securities	902,213	7,094,121
10.	–/+	Increase / decrease in other assets relating to operating activities	–2,620,644	534,481
11.	+/–	Increase / decrease in liabilities to banks	–6,603,231	–5,954,166
12.	+/–	Increase / decrease in liabilities to customers	27,143,108	398,532
13.	+/–	Increase / decrease in securitised liabilities	–21,042,800	–5,777,974
14.	+/–	Increase / decrease in other liabilities relating to operating activities	3,350,290	–1,987,288
15.	+/–	Interest expense / interest income	–325,057	–347,784
16.	+/–	Income tax expense / income	17,311	–682
17.	+	Interest and dividend payments received	5,260,590	6,521,887
18.	–	Interest paid	–4,971,304	–6,174,103
19.	–/+	Income taxes paid	78,967	–51,406
20.	=	**Cash flows from operating activities**	**534,621**	**889,136**
21.	+	Proceeds from disposal of long-term financial assets	638,671	311,085
22.	+	Proceeds from disposal of tangible fixed assets	3	2
23.	–	Payments to acquire tangible fixed assets	–1	–18
24.	–	Payments to acquire intangible fixed assets	0	0
25.	=	**Cash flows from investing activities**	**638,673**	**311,069**
26.	=	**Cash flows from financing activities**	**0**	**0**
27.		Net change in cash funds	1,173,294	1,200,205
28.	+/–	Effect on cash funds due to exchange rate movements and remeasurements	3,583	–437
29.	+	Cash funds at beginning of period	5,042,693	3,842,925
30.	=	**Cash funds at end of period**	**6,219,570**	**5,042,693**

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 2019

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

Net retained profits from the 2018 fiscal year were transferred to retained earnings by decision of the Supervisory Board of FMS Wertmanagement AöR dated 29 March 2019.

Statement of changes in equity for the period from 1 January until 31 December 2018

	Balance at 01.01.2018 in EUR thousand	Appropriation of net income / loss in EUR thousand	Net income for the year in EUR thousand	Balance at 31.12.2018 in EUR thousand
Subscribed capital	200	0	0	200
Capital reserves	1,800	0	0	1,800
Other retained earnings	1,039,281	359,139	0	1,398,420
Net retained profits	359,139	–359,139	114,799	114,799
Equity as defined by German commercial law	1,400,420	0	114,799	1,515,219

NOTES

GENERAL INFORMATION

Legal framework

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

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

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

In 2012, FMS-WM established its own service entity, FMS Wertmanagement Service GmbH, Unterschleißheim (FMS-SG), which assumed responsibility for portfolio servicing and the provision of all material services associated with it effective 1 October 2013. FMS-WM retains final decision-making powers and ultimate responsibility for the risk assets under management. The master agreement governing the outsourcing of business processes and services also grants FMS-WM extensive rights to obtain information and perform inspections, enabling the latter to monitor and control the servicing of the risk assets by FMS-SG. FMS-SG operated from three sites in fiscal year 2019 (Unterschleißheim, Dublin and New York).

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

DEPFA BANK plc

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

Accounting principles

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

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

Accounting policies

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

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

Those book values were used if the assets were transferred to FMS-WM under so-called “concentration agreements”. If the transferor prepares its accounting pursuant to the International Financial Reporting Standards (IFRSs), 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. Both amortisation and current premium payments related to credit default swap (CDS) exposures 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 write-downs 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 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 other 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 short-term unwinding measures are sufficiently specific, the conditions on the sales market as well. Expected future proceeds from the realisation of collateral were 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.

Collective country valuation allowances are also recognised for loans to borrowers in countries with 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 valuation allowances 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.

The *Debt instruments* balance sheet item, excluding own issues bought back, is allocated to fixed assets (financial assets) because they are continuously used for operations. Debt instruments are measured at amortised cost in accordance with Section 253 (1) and (3) HGB. If FMS-WM 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.

Investment securities 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. In the case of provisions for hedge inefficiencies and stand-alone derivatives, the estimation techniques used to determine any excess obligation (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.

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

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

- If an (indicative) market price (rate) 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 carried as a uniform asset in each case and in compliance with IDW RS HFA 22.

Securities repurchase agreements are reported 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 repo 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 presented in FMS-WM's balance sheet due to the lack of beneficial ownership.

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

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

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

For the sake of simplicity and in compliance with the tax regulations, since 1 January 2019 assets costing EUR 800.00 or less before VAT have been written down in full in the year of acquisition. Accordingly, the methodology for the establishment of an omnibus account (net EUR 250.00 to EUR 1,000.00) which has been written down over five years on a straight-line basis has been changed over to the above-mentioned immediate write-off method, up to a net amount of EUR 800.00. The basis for this change is the increase in the value threshold for immediate write-offs for tax purposes from fiscal year 2018 onwards, from a net amount of EUR 410.00 to a net amount of EUR 800.00.

Deferred tax assets and deferred tax liabilities are initially calculated as at 31 December 2019 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 29.49%. 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 2019 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)
- Accruals of positive differences between nominal value of receivables and acquisition costs, which are similar in nature to interest

Prepaid expenses are amortised on a pro rata basis. To the extent that prepaid expenses were recognised 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 reversed 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 the 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)
- 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, counterparty and currency risks.

- Derivative financial instruments serving to *hedge the market risks (basically interest rate risks) of individual hedged items* are aggregated 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 counterparty 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 hedge'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 hedges is examined primarily on the basis of linear regression or using the critical terms match method.

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

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

Compensation payments received in connection with amendments to credit support annexes in place for derivatives 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 19 million.

Contingent liabilities are disclosed below the line at their nominal amount after deduction of amortised cost and any 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 2019 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”).

Starting with the annual financial statements as at 31 December 2019, interest expenses for the Euro CP / CD Programme (2019: EUR 347 million; 2018: EUR 386 million) are now reported under interest expenses for securitised liabilities. These interest expenses were previously presented under interest expenses for lending and money market transactions. The relevant disclosures in the notes for the previous year have been adjusted for the sake of improved comparability.

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 reversals 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 again acquired additional liabilities from DEPFA Group companies ("DEPFA liabilities") with a nominal volume of EUR 0.1 billion in fiscal year 2019. At 31 December 2018, FMS-WM was already holding purchased DEPFA liabilities with a nominal value of EUR 1.2 billion. Effective 7 June 2019, FMS-WM sold acquired DEPFA liabilities with a nominal volume of EUR 1.3 billion to DEPFA ACS BANK DAC, Dublin (DEPFA ACS). In direct connection with the sale of these liabilities, in a further step risk positions of DEPFA Group companies were acquired with a nominal volume of EUR 1.6 billion ("1st portfolio extension in fiscal year 2019").

Effective 18 November 2019, FMS-WM sold subordinated (TIER II) loans of DEPFA BANK plc with a nominal volume of EUR 0.4 billion to DEPFA BANK plc and sold the two hybrid capital bonds of DEPFA Funding II LP, London (DEPFA Funding II) and DEPFA Funding III LP, London (DEPFA Funding III) acquired in fiscal year 2015 with a nominal volume of EUR 0.6 billion to the issuers. In direct connection with the sale of the TIER II loans and the hybrid capital loans, in a further step risk positions of DEPFA Group companies were acquired with a nominal volume of EUR 1.0 billion ("2nd portfolio extension in fiscal year 2019"). FMS-WM realised a disposal gain of EUR 233 million in connection with the sale of the two hybrid capital bonds in fiscal year 2019.

Effective 16 December 2019, FMS-WM acquired risk positions from DEPFA ACS with a nominal volume of EUR 1.4 billion ("3rd portfolio extension in fiscal year 2019"). In connection with the acquisition of these exposures by FMS-WM, DEPFA BANK plc repaid drawdowns on liquidity facilities extended by FMS-WM.

Unless specified in greater detail, the portfolio extensions for fiscal years 2016 to 2019 are henceforth summarised by the term "portfolio extensions". The portfolio extensions in fiscal year 2019 are thus summarised as such.

The nominal amounts of receivables of the risk positions acquired as part of the portfolio extensions in fiscal year 2019 are as follows for the respective balance sheet items as at 31 December 2019:

	1st portfolio extension	2nd portfolio extension	3rd portfolio extension
Nominal value	31.12.2019 in EUR million	31.12.2019 in EUR million	31.12.2019 in EUR million
Loans and advances to banks	0	362	0
Loans and advances to customers	384	201	0
Debt instruments	1,081	486	1,375
Total	**1,465**	**1,049**	**1,375**

[1] *DEPFA Group: DEPFA BANK plc and its indirect and direct subsidiaries.*

NOTES TO THE BALANCE SHEET

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

Assets

Cash reserve

The Cash reserve item shows a credit balance with Deutsche Bundesbank in the amount of EUR 6,097 million (31 December 2018: EUR 4,869 million).

Loans and advances to banks

	31.12.2019 in EUR million	31.12.2018 in EUR million
a) Payable on demand	32,709	29,886
b) Other loans and advances	1,962	6,142
Total	**34,671**	**36,028**
Of which: to affiliated companies	405	5,042
Of which: to other long-term equity investments	0	0

The rise in loans and advances payable on demand is due to an increase in cash collateral required to be provided for derivative positions. The decline in other loans and advances has mainly resulted due to the sale of DEPFA liabilities and the TIER II loans as well as repayments of the liquidity facilities drawn down by DEPFA BANK plc. This contrasts with the addition of risk positions in connection with the 2nd portfolio extension in fiscal year 2019 with a nominal volume of EUR 0.4 billion.

Loans and advances to affiliated companies include an amount of EUR 269 million (31 December 2018: EUR 481 million) for loans and advances in connection with cash collateral required to be provided for financial derivatives.

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

	31.12.2019 in EUR million	31.12.2018 in EUR million
Up to three months	600	3,497
More than three months and up to one year	637	818
More than one year and up to five years	0	205
More than five years	725	1,622
Total	**1,962**	**6,142**

The change within the maturity ranges for the other loans and advances to banks has resulted due to the above-mentioned transactions with companies of the DEPFA Group.

Loans and advances to customers

	31.12.2019 in EUR million	31.12.2018 in EUR million
Total	**15,731**	**13,300**
Of which: to affiliated companies	0	103
Of which: to other long-term equity investments	0	0

The rise in loans and advances to customers is mainly due to an increase in cash collateral payable on demand that was required to be provided for derivative positions as a result of derivatives clearing at Eurex Clearing AG, Eschborn (31 December 2019: EUR 4,261 million; 31 December 2018: EUR 1,609 million), via the clearing member the Federal Republic of Germany, represented by Bundesrepublik Deutschland – Finanzagentur GmbH, Frankfurt am Main (German Finance Agency). These additions attributable to the portfolio extensions in fiscal year 2019 with a nominal value of EUR 0.6 billion were set against the unwinding of a nominal EUR 1.2 billion of the portfolio.

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

	31.12.2019 in EUR million	31.12.2018 in EUR million
Payable on demand	4,271	1,620
Up to three months	121	111
More than three months and up to one year	858	989
More than one year and up to five years	1,454	1,674
More than five years	9,027	8,906
Total	**15,731**	**13,300**

The increase in loans and advances to customers with a maturity of more than five years is attributable to the additions within the scope of the portfolio extensions in fiscal year 2019.

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:

	31.12.2019 in EUR million	31.12.2018 in EUR million
Book value	80,270	82,078
Of which: public-sector issuers	30,783	30,600
Of which: other issuers	34,636	34,790
Of which: own debt instruments	14,851	16,688
Marketable securities	80,270	82,078
Of which: listed	68,221	70,163
Of which: not listed	12,049	11,915
Securities sold under repurchase agreements	14,460	18,191
Securities due in the following year	9,161	7,157
Securities issued by affiliated companies	26	64

Of the marketable securities, securities with a book value of EUR 65,419 million (31 December 2018: EUR 65,390 million) are held as fixed assets. Of the marketable securities, securities with a book value of EUR 26 million (31 December 2018: EUR 64 million) were issued by affiliated companies.

In addition, the marketable securities include own debt instruments with a book value of EUR 14,851 million (31 December 2018: EUR 16,688 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 debt instruments is due to the sale, scheduled repayment and disposal of held-to-maturity securities as well as the decline in own debt instruments. This contrasts with additions of risk positions associated with the portfolio extensions in fiscal year 2019.

The deferred write-downs on debt instruments total EUR 1,250 million based on their fair values as at 31 December 2019 (31 December 2018: EUR 2,472 million). This comprises debt instruments with book values of EUR 21,073 million (31 December 2018: EUR 31,361 million) and fair values of EUR 19,823 million (31 December 2018: EUR 28,890 million). Where securities carry hidden losses as at the reporting date, FMS-WM assumes that, due to its mostly long-term wind-up strategy and the securities' expected performance, their fair value will be temporarily less than their book value. Corresponding write-downs were taken if there were any doubts as to collectability.

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

		Other issuers			
in EUR million	Of which: public-sector issuers	Of which: banks	Of which: other issuers	Total 31.12.2019	Total 31.12.2018
Book value	30,783	2,223	32,413	65,419	65,390
Fair value	35,602	2,392	38,914	76,908	70,706
Hidden reserves	5,335	205	7,199	12,739	7,788
Hidden losses (deferred write-downs)	516	36	698	1,250	2,472
Of which:					
Hidden losses, ABS				541	501
Of which:					
Hidden losses, PIIGS countries [1]				659	1,602
of which:					
Portugal				5	30
Ireland				26	3
Italy				598	1,499
Spain				30	70

[1] *Issuer's country of domicile*

The hidden losses from ABS as at 31 December 2019 include EUR 118 million in losses attributable to risks related to the PIIGS countries (31 December 2018: EUR 110 million).

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

Shares and other non-fixed-income securities

The Shares and other non-fixed-income securities item in the balance sheet is comprised as follows:

	31.12.2019 in EUR million	31.12.2018 in EUR million
Marketable securities	0	386
Of which: listed	0	0
Of which: not listed	0	386

During fiscal year 2019, FMS-WM sold the hybrid capital bonds issued by DEPFA Funding II and DEPFA Funding III to the issuers, as a result of which the balance sheet item has a balance of zero as at 31 December 2019.

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:

	31.12.2019 in EUR million	31.12.2018 in EUR million
Book value	474	493
Of which: shares in affiliated companies (banks)	323	323
Of which: shares in affiliated companies (financial services institutions)	30	50

Shares in affiliated companies (banks) relate to DEPFA BANK plc, whereas shares in affiliated companies (financial services institutions) relate to FMS-SG. The capital reserves of FMS-SG were released proportionately in fiscal year 2019 in the amount of EUR 20 million and returned to the shareholder FMS-WM.

Intangible and tangible fixed assets, and financial assets

	Cost			Depreciation / amortization / write-downs				Book value	
in EUR million	Balance 01.01.2019	Additions 2019	Disposals 2019	Cumulative 01.01.2019	Current year 2019	Disposals 2019	Cumulative 31.12.2019	Balance 31.12.2019	Balance 31.12.2018
Intangible fixed assets	4.5	0.0	0.0	3.7	0.5	0.0	4.2	0.3	0.8
Tangible fixed assets	1.6	0.0	0.0	1.3	0.1	0.0	1.4	0.2	0.3
Shares in affiliated companies	493	19[1]						474	493
Bonds and notes	65,390	29[1]						65,419	65,390
Shares and other non-fixed-income securities	386	386[1]						0	386

[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.

Other assets

Other assets in the amount of EUR 478 million (31 December 2018: EUR 890 million) mainly include currency translation adjustments of EUR 365 million from off-balance sheet transactions denominated in foreign currencies (31 December 2018: EUR 690 million), which are recognised in the context of special coverage under Section 340h HGB. There are also tax assets in the amount of EUR 38 million (31 December 2018: EUR 142 million).

Prepaid expenses

Prepaid expenses are comprised of the following items:

	31.12.2019 in EUR million	31.12.2018 in EUR million
Unamortised cost of derivatives	7,274	4,903
Lending business (premium from receivables)	1,443	1,695
Issuing business / loans taken out (discount, liabilities)	48	64
Other	3	3
Total	**8,768**	**6,665**

The unamortised cost of derivatives results, among other things, from payments made by FMS-WM for the market values of derivatives recognised by the transferors as at the transfer date in 2010. The item also contains unamortised payments made by FMS-WM to acquire interest rate derivatives in connection with the wind-up task related to the DEPFA Group. The increase in the unamortised cost of derivatives is attributable, inter alia, to the funding activity and to the acquisition of derivatives in connection with the portfolio extensions in fiscal year 2019 and the deferrable payments made. This was partially compensated for by pro rata amortisation.

Prepaid expenses from lending business mainly include the deferred, unamortised payments that FMS-WM made in 2010 for the hedge adjustments of the hedged items (receivables) that were transferred from HRE Group companies [1] and for risk positions (loan receivables) transferred in connection with the wind-up task related to the DEPFA Group. The decrease in the reporting period is attributable to ongoing amortisation as well as the above-mentioned sale of DEPFA liabilities. Additions within the scope of the portfolio extensions (receivables) in fiscal year 2019 have partially compensated for the decline in prepaid expenses from the lending business.

Subordinated assets

The following items on the assets side of the balance sheet contain subordinated assets:

	31.12.2019 in EUR million	31.12.2018 in EUR million
Loans and advances to banks	0	360
Debt instruments	39	36
Shares and other non-fixed-income securities	0	386
Total	**39**	**782**

[1] *HRE Group: Hypo Real Estate Holding AG, Munich (HRE) and its direct and indirect, domestic and foreign subsidiaries and special purpose entities.*

Equity and liabilities

Liabilities to banks

	31.12.2019 in EUR million	31.12.2018 in EUR million
a) Payable on demand	948	618
b) With agreed maturity or notice period	2,597	9,410
Total	**3,545**	**10,028**
Of which: to affiliated companies	728	191
Of which: to other long-term equity investments	0	0

Liabilities to banks payable on demand consist of cash collateral received for derivative positions, of which EUR 638 million is attributable to DEPFA Group companies (31 December 2018: EUR 84 million).

Liabilities with an agreed maturity or notice period consist mainly of liabilities from securities repurchase agreements (as seller) in the amount of EUR 1,487 million (31 December 2018: EUR 8,095 million). The change in the reporting period is mainly attributable to securities repurchase agreements maturing as scheduled. In addition, liabilities from interest accruals on derivatives amount to EUR 1,010 million (31 December 2018: EUR 1,209 million).

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

	31.12.2019 in EUR million	31.12.2018 in EUR million
Up to three months	0	3,923
More than three months and up to one year	2,499	5,389
More than one year and up to five years	43	43
More than five years	55	55
Total	**2,597**	**9,410**

Liabilities to customers

	31.12.2019 in EUR million	31.12.2018 in EUR million
a) Payable on demand	86	148
b) With agreed maturity or notice period	40,893	13,579
Total	**40,979**	**13,727**
Of which: to affiliated companies	170	202
Of which: to other long-term equity investments	0	0

Liabilities payable on demand consist mainly of cash collateral received for derivative positions in the amount of EUR 73 million (31 December 2018: EUR 148 million).

Liabilities with an agreed maturity or notice period consist mainly of funding taken out by FMS in the current fiscal year for the first time, in the amount of EUR 25,011 million, as well as liabilities from securities repurchase agreements (as seller), in the amount of EUR 13,057 million (31 December 2018: EUR 9,501 million). Additional liabilities to customers include, in particular, loans taken out in the amount of EUR 1,638 million (31 December 2018: EUR 1,672 million) and term and time deposits in the amount of EUR 869 million (31 December 2018: EUR 2,200 million).

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

	31.12.2019 in EUR million	31.12.2018 in EUR million
Up to three months	12,145	9,155
More than three months and up to one year	2,816	2,776
More than one year and up to five years	15,519	192
More than five years	10,413	1,456
Total	40,893	13,579

The increase in liabilities with maturities of more than one year has mainly resulted from new funding taken out by FMS with a nominal volume of EUR 25.0 billion.

Securitised liabilities

	31.12.2019 in EUR million	31.12.2018 in EUR million
a) Debt instruments issued	55,890	72,889
b) Other securitised liabilities	25,043	29,296
Total	80,933	102,185
Of which: to affiliated companies	0	2,050
Of which: to other long-term equity investments	0	0
Amounts due in the following year	51,287	55,551
Of which: Debt instruments issued	26,244	26,255

The securitised liabilities comprise EUR 55,890 million (31 December 2018: EUR 72,889 million) in debt instruments issued and EUR 25,043 million (31 December 2018: EUR 29,296 million) in issued European Commercial Paper.

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

	31.12.2019 in EUR million	31.12.2018 in EUR million
Up to three months	16,174	15,135
More than three months and up to one year	8,869	14,161
More than one year and up to five years	0	0
More than five years	0	0
Total	**25,043**	**29,296**

Other liabilities

Other liabilities mainly include currency translation adjustments of EUR 406 million from off-balance sheet transactions denominated in foreign currencies (31 December 2018: EUR 163 million), which are recognised in the context of special coverage under Section 340h HGB, and liabilities of EUR 227 million from derivatives (31 December 2018: EUR 213 million).

Deferred income

Deferred income is comprised of the following items:

	31.12.2019 in EUR million	31.12.2018 in EUR million
Unamortised payments received for derivatives	17,615	16,270
Issuing business / loans taken out	629	80
Lending business (discount on receivables)	39	30
Other	5	7
Total	**18,288**	**16,387**

The unamortised payments received for derivatives item results, among other things, from payments received by FMS-WM for the market values of derivatives recognised by the transferors as at the transfer date in 2010. The item also contains unamortised payments received by FMS-WM to acquire interest rate derivatives in connection with the wind-up task related to the DEPFA Group. The increase in the unamortised payments received for derivatives is attributable to the acquisition of further derivatives, inter alia in connection with the portfolio extensions in fiscal year 2019. Ongoing amortisation partially compensated for this.

The increase in deferred income resulting from issuing business / loans taken out is attributable to premiums associated with the funding received by FMS.

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

Provisions

	31.12.2019 in EUR million	31.12.2018 in EUR million
Provision for taxes	19	28
Other provisions	322	437
of which: provisions for expected losses	306	417
Total	341	465

Provisions for expected losses consist mainly of provisions for expected losses for standalone derivatives of EUR 149 million (31 December 2018: EUR 187 million) and for valuation unit ineffectiveness under Section 254 HGB of EUR 105 million (31 December 2018: EUR 118 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 658 million (31 December 2018: EUR 768 million). This includes obligations arising from CDS (with third parties as counterparties) in the amount of EUR 600 million which are accounted for as financial guarantees (31 December 2018: EUR 618 million), and so called “transfers via guarantee” in the amount of EUR 9 million (31 December 2018: EUR 43 million). There are no longer any guarantees extended to affiliated companies as at 31 December 2019 (31 December 2018: EUR 50 million).

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

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

Other obligations

Irrevocable loan commitments of EUR 1,916 million (31 December 2018: EUR 3,526 million) include undrawn liquidity facilities in the amount of EUR 1,004 million (31 December 2018: EUR 2,520 million), of which EUR 775 million (31 December 2018: EUR 2,465 million) relate to DEPFA BANK plc.

In connection with the agreement on the “Ersatzdeckungslösung” (substitute cover solution), FMS-WM pledged to Deutsche Pfandbriefbank AG, Munich (pbb) to pay out up to EUR 2,995 million to pbb on request. According to the payment plan, this obligation decreased to EUR 881 million as at 31 December 2019 (31 December 2018: EUR 972 million). The “Ersatzdeckungslösung” is included in the irrevocable loan commitments. A disbursement would equally give rise to a claim of FMS-WM against pbb. In this respect, FMS-WM is exposed to a default risk vis-à-vis the counterparty pbb.

Other financial obligations

Some of the outsourced services (inter alia FMS-SG, IBM Deutschland and DG FIS) 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 contractual volume of around EUR 100 million per year, of which an average of around 63% is attributable to FMS-SG, is expected for the next three years.

Assets pledged as collateral

Apart from the securities sold under repurchase agreements as at 31 December 2019 (see the description under *Debt instruments*) in the amount of EUR 14,460 million (31 December 2018: EUR 18,191 million), there are no other assets pledged as collateral for liabilities or contingent liabilities of FMS-WM.

Loans and advances to banks include an amount of EUR 131 million (31 December 2018: EUR 118 million) that has been pledged to a customer as contractually agreed.

Derivative financial instruments

FMS-WM holds OTC derivatives not held for trading. The market values of the derivatives are determined by means of standard measurement models based on the measurement parameters available in the market.

The table below shows the breakdown of FMS-WM's interest-based and currency-based derivatives and the total return swaps:

	Nominal values				
	Remaining maturities, 31.12.2019				
in EUR million	< 1 year	1 – 5 years	> 5 years	Total 31.12.2019	Total 31.12.2018
Interest-based transactions	47,168	52,436	97,694	197,298	167,009
Total return swaps	0	1	4,228	4,229	4,278
Currency-based transactions	23,612	866	4,529	29,007	27,608
Of which: forward exchange transactions	20,534	0	0	20,534	16,105
Of which: cross currency swaps	3,078	866	4,529	8,473	11,503
Total	**70,780**	**53,303**	**106,451**	**230,534**	**198,895**

	Fair values			
	31.12.2019		31.12.2018	
in EUR million	Positive	Negative	Positive	Negative
Interest-based transactions	10,874	–49,398	6,958	–41,772
Total return swaps	1,114	–1,249	1,126	–1,144
Currency-based transactions	850	–905	1,162	–605
Of which: forward exchange transactions	85	–330	296	–32
Of which: cross currency swaps	765	–575	866	–573
Total	**12,838**	**–51,552**	**9,246**	**–43,521**

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 –10,342 million as at 31 December 2019 (31 December 2018: EUR –11,359 million). In the other assets / other liabilities item, the net book value of these derivatives in the amount of EUR –209 million is reported (31 December 2018: EUR 354 million).

The table below shows the breakdown of FMS-WM's credit derivatives:

	31.12.2019		31.12.2018	
in EUR million	Nominal values	Fair values	Nominal values	Fair values
Secured party credit default swaps (CDS)	1,476	21	218	55
Guarantor credit default swaps (CDS)	645	–32	662	–45
Total	**2,121**	**–11**	**880**	**10**

The table shows the credit derivatives vis-à-vis third parties, with the derivatives where FMS-WM is the guarantor being reported under contingent liabilities in the amount of EUR 600 million (31 December 2018: EUR 618 million). The book values of those derivatives are recognised in prepaid expenses and deferred income. As at 31 December 2019, the book values recognised as assets and liabilities netted to EUR 1 million (31 December 2018: EUR –8 million).

As the secured party, FMS-WM acquired credit derivatives vis-à-vis third parties with a nominal volume of EUR 1.3 billion in fiscal year 2019. These credit derivatives serve to protect against a concrete default risk in the portfolio with a volume of EUR 1.1 billion as loan collateral received.

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	31.12.2019 in EUR million	31.12.2018 in EUR million
Assets	40,264	41,690
Liabilities	63,711	50,380
Derivatives	14,329	9,685
Total	**118,304**	**101,755**

Furthermore, hedged items with a nominal value of EUR 4,229 million (31 December 2018: EUR 4,308 million) were combined with total return swaps pursuant to IDW RS BFA 1. In fiscal year 2019, hedged items with a nominal value of EUR 1,092 million were combined for the first time 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 2019 and whose countervailing changes in value or cash flows can be expected to balance in the future.

Assets	31.12.2019 in EUR million	31.12.2018 in EUR million
Up to three months	176	131
More than three months and up to one year	1,295	1,264
More than one year and up to five years	3,683	4,534
More than five years	35,110	35,761
Assets	**40,264**	**41,690**

Liabilities	31.12.2019 in EUR million	31.12.2018 in EUR million
Up to three months	9,721	6,836
More than three months and up to one year	9,130	8,257
More than one year and up to five years	33,540	33,046
More than five years	11,320	2,241
Liabilities	**63,711**	**50,380**

Derivatives	31.12.2019 in EUR million	31.12.2018 in EUR million
Up to three months	408	193
More than three months and up to one year	850	105
More than one year and up to five years	2,463	2,536
More than five years	10,608	6,851
Derivatives	**14,329**	**9,685**

The net hedge presentation method does not require presentation of the positive and negative changes in value (expenses and income) of the hedged risk in a micro valuation unit. Were the gross hedge presentation method to be applied, net income of EUR 29,126 million (31 December 2018: EUR 23,396 million) would arise on the basis of the current measurements.

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

31.12.2019 in EUR million	Negative change in value (absolute figure)	Positive change in value (absolute figure)
Hedged items	1,173	14,305
Hedging instruments	14,387	1,150
Total	**15,560**	**15,455**
Of which: not recognised	15,455	0
Of which: recognised as a provision for expected losses	105	0

Foreign-currency items

Total assets in foreign currencies as at 31 December 2019 amount to EUR 59,693 million (31 December 2018: EUR 59,057 million). Liabilities in foreign currencies as at 31 December 2019 amount to EUR 67,736 million (31 December 2018: EUR 69,708 million).

NOTES TO THE INCOME STATEMENT

Net interest income

	01.01.– 31.12.2019 in EUR million	01.01.– 31.12.2018 in EUR million
Interest income	6,744	6,522
Lending and money market transactions Of which: negative interest deducted EUR 247 million (previous year: EUR 658 million)	4,770	4,515
Fixed income securities and registered government debt	1,974	2,007
Interest expenses	6,419	6,174
Lending and money market transactions Of which: positive interest deducted EUR 305 million (previous year: EUR 635 million)	4,644	4,323
Securitised liabilities	952	1,078
Loans taken out	–8	47
Other	831	726
Total	325	348

Net interest income of EUR 325 million in the fiscal year ended decline by EUR 23 million year-on-year. Net interest income includes one-off effects in the amount of EUR 19 million (previous year: EUR 32 million) in connection with compensation payments received for contractual adjustments to existing credit support annexes for derivatives. The year-on-year decrease in net interest income adjusted for one-off effects is mainly attributable to the reduced volume of the portfolio.

Interest income includes EUR 4,093 million (previous year: EUR 4,216 million) in interest from derivative financial instruments. As last year, Western Europe and the United States account for most of the interest income. Of the interest expenses, EUR 4,620 million (previous year: EUR 4,628 million) relates to derivative financial instruments. The interest expenses from loans taken out also include the amortisation of premiums in relation to the funding obtained via the FMS, which has reduced interest expenses.

The method used to calculate negative interest was refined in the reporting period, inter alia in relation to the variable components of interest rate derivatives. The figures for the previous year for negative interest are therefore only comparable to a limited extent. If this method had already been applied in the previous year, then in the period from 1 January to 31 December 2018 interest income from lending and money market transactions would have amounted to EUR 4,702 million (of which: negative interest deducted in the amount of EUR 211 million), while interest expenses from lending and money market transactions would have amounted to EUR 4,854 million (of which: positive interest deducted in the amount of EUR 261 million). However, this has not had any effect on net interest income.

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 from shares in affiliated companies and other long-term equity investments

	01.01.–31.12.2019 in EUR million	01.01.–31.12.2018 in EUR million
Current income from		
Other long-term equity investments	0	0
Shares in affiliated companies	49	0
Total	49	0

Current income from shares in affiliated companies results from a dividend payment disbursed by the subsidiary Flint Nominees Ltd., London.

Income from profit transfer

In the fiscal year, FMS-WM collected the annual result of FMS-SG in the amount of EUR 1.4 million due to the existing profit transfer agreement with FMS-SG.

Net commission income

	01.01.–31.12.2019 in EUR million	01.01.–31.12.2018 in EUR million
Commission income	13	16
Derivative business	8	10
Lending business	4	6
Other	1	0
Commission expenses	18	12
Securities and issuing business	5	6
Derivatives business	12	5
Other	1	1
Total	–5	4

The decline in net commission income is due, on the one hand, to the unwinding of the portfolio and the resulting decrease in commission income from lending and derivative business and, on the other hand, to the increased expenses from derivative business registered in the past fiscal year. This has resulted from the hedging of risk positions by means of CDS hedging instruments in the past fiscal year.

Other operating income and expenses

Other operating income of EUR 9 million (previous year: EUR 15 million) mainly includes income of EUR 3 million (previous year: EUR 4 million) from services provided by FMS-WM to affiliated companies and reversals of provisions of EUR 2 million (previous year: EUR 2 million). Other operating expenses of EUR 11 million (previous year: EUR 6 million) mainly include expenses from foreign currency translation in the amount of EUR 7 million (previous year: income from foreign currency translation in the amount of EUR 2 million), portfolio-related costs and transaction costs.

General and administrative expenses

	01.01.–31.12.2019 in EUR million	01.01.–31.12.2018 in EUR million
Personnel expenses	19	19
Other administrative expenses	119	125
Total	138	144

Personnel expenses for the staff employed by FMS-WM in fiscal year 2019 remained steady at EUR 19 million (previous year: EUR 19 million).

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

Including all service providers employed, expenses for servicing the portfolio decreased by EUR 6 million to EUR 94 million year-on-year (previous year: EUR 100 million). Other administrative expenses amounted to EUR 25 million in the 2019 fiscal year (previous year: EUR 25 million).

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

Depreciation and amortisation of intangible and tangible fixed assets amounts to EUR 547 thousand (previous year: EUR 574 thousand).

Write-downs of and valuation allowances on receivables and certain securities, and additions to loan loss provisions

The following income and expenses are reported in this item:

	01.01.–31.12.2019 in EUR million	01.01.–31.12.2018 in EUR million
Net revaluation gain / loss in the lending business	–285	311
Net revaluation gain / loss from securities classified as current assets	2	–1
Total	–283	310

This item shows a net revaluation loss of EUR 283 million for fiscal year 2019. The net revaluation loss from the lending business of EUR 285 million mainly reflects the valuations carried out in the reporting period to cover credit risks.

Income from reversals of write-downs of shares in affiliated companies, other long-term equity investments and securities classified as fixed assets

The following income and expenses were recognised in this item:

	01.01.– 31.12.2019 in EUR million	01.01.– 31.12.2018 in EUR million
Net gain / loss on sale of securities incl. net gain / loss from derivatives	235	–386
Net revaluation gain / loss from derivatives	44	49
Net revaluation gain / loss from securities	27	–78
Other income / expenses	0	0
Total	306	–415

The net gain / loss on sale of securities incl. the net gain / loss from derivatives is primarily due to a disposal gain of EUR 233 million resulting from the sale of the hybrid capital bonds issued by DEPFA Funding II and DEPFA Funding III to the issuers.

The net revaluation gain from derivatives includes net reversals of provisions for expected losses for stand-alone derivatives in the amount of EUR 28 million and for valuation unit ineffectiveness under Section 254 HGB in the amount of EUR 16 million.

The net revaluation gain from securities is mainly due to the reversal of valuation measures to cover default risks.

Taxes on income

Taxes on income are attributable to corporate income tax, the solidarity surcharge, trade tax and Italian income taxes. The net expenses of EUR 17 million reported under this item in the fiscal year ended result from current tax expenses of EUR 34 million and tax income for previous years of EUR 17 million.

OTHER DISCLOSURES

Auditor's fee

The auditor's fee recognised during the fiscal year in the amount of EUR 2.1 million (previous year: EUR 1.9 million) is comprised as follows:

	01.01. – 31.12.2019 in EUR million	01.01. – 31.12.2018 in EUR million
Audit services	1.9	1.8
Other assurance services	0.2	0.1
Tax advisory services	0.0	0.0
Total	**2.1**	**1.9**

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 2019.

Other assurance services concern the preparation of comfort letters in connection with FMS-WM's issuance activities.

Of the expenses recognised in the reporting year, EUR 0 thousand (previous year: EUR 29 thousand) concern tax advisory services.

Proposal for the appropriation of net income / loss

In accordance with Section 13 of the Charter, the Executive Board proposes to the Supervisory Board that the net income for fiscal year 2019 be allocated to retained earnings.

Shareholdings

The following overview shows the shares in affiliated companies of FMS-WM as at 31 December 2019, each of which is based on the company's most recent annual financial statements.

Name and registered office	Share in capital	Of which: indirectly	Equity in thousand	Result in thousand	Currency [10]
DEPFA ACS BANK DAC, Dublin	100.00%	100.00%	587,541 [3]	–8,636 [4]	EUR
DEPFA BANK plc, Dublin	100.00%		696,638 [3]	112,785 [4]	EUR
DEPFA Finance N.V., Amsterdam [8]	100.00%	100.00%	82 [3]	–3,066 [4]	EUR
DEPFA Hold Six, Dublin [8]	100.00%	100.00%	0 [3]	0 [4]	USD
DEPFA Ireland Holding Ltd, Dublin [8]	100.00%	100.00%	21 [3]	–7 [4]	EUR
DEPFA International S.A., Luxembourg	100.00%	100.00%	5,041 [3]	2,211 [4]	EUR
Flint Nominees Ltd., London	100.00%		8,564 [1]	497 [2]	GBP
FMS Wertmanagement Service GmbH, Unterschleißheim	100.00%		30,000 [1]	0 [2,7]	EUR
Hypo Property Investment (1992) Ltd., London [9]	100.00%	100.00%	1 [5]	0 [6]	GBP
Hypo Property Investment Ltd., London [9]	100.00%	100.00%	292 [5]	0 [6]	GBP
Hypo Property Services Ltd., London [9]	100.00%	100.00%	116 [5]	0 [6]	GBP
Hypo Real Estate Capital Corp., New York	100.00%		53,214 [5]	1,040 [6]	USD
Upgrade 1 LLC, Wilmington / Delaware	100.00%	100.00%	312 [5]	–1 [6]	USD
WH-Erste Grundstücks Verwaltungs GmbH, Munich	100.00%		28 [1]	–26 [2]	EUR
WH-Erste Grundstücks GmbH & Co. KG, Munich	93.98%		109,535 [1]	22,909 [2]	EUR

1 *31 December 2019*
2 *2019*
3 *31 December 2019 preliminary*
4 *2019 preliminary*
5 *31 December 2018*
6 *2018*
7 *After profit transfer*
8 *In liquidation*
9 *Liquidated effective 10 March 2020*
10 *Exchange rates as at 31 December 2019: 1 EUR = 0.8508 GBP*
1 EUR = 1.1234 USD

Corporate bodies of FMS Wertmanagement

Members of the Executive Board

Christoph Müller, CRO / CFO (until 30 June 2019); CEO, Spokesman of the Executive Board (from 1 July 2019)

Carola Falkner, Asset Management & Treasury (from 1 July 2019)

Stephan Winkelmeier, CEO, Spokesman of the Executive Board (until 30 June 2019)

Frank Hellwig, COO (until 30 September 2019)

Stephan Winkelmeier, Spokesman of the Executive Board with responsibility for the position of CEO, left FMS-WM at his own request effective 30 June 2019. Christoph Müller took on the role of Spokesman of the Executive Board with responsibility for the CEO division effective 1 July 2019. Carola Falkner was appointed to the Executive Board with responsibility for the Asset Management & Treasury division effective 1 July 2019. Frank Hellwig, who was responsible for the COO division, left FMS-WM at his own request effective 30 September 2019. Christoph Müller and Carola Falkner assumed responsibility for the previous COO division on 1 October 2019.

Members of the Supervisory Board

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

Dr. Michael Kemmer (since 6 January 2020)
Chairman of the Supervisory Board (since 6 February 2020)
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
Chief Risk Officer, Member of the Management Board of UBS Europe SE

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

Ingo Mandt (until 11 November 2019)
Bankkaufmann (qualified banker)

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

Loans to members of the corporate bodies

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

Remuneration of the corporate bodies

The members of FMS-WM's Executive Board were paid remuneration of EUR 1,264 thousand for fiscal year 2019 (previous year: EUR 1,336 thousand). They were also paid benefits in kind of EUR 18 thousand (previous year: EUR 40 thousand). In addition, a total of EUR 138 thousand (previous year: EUR 150 thousand) were expended in the reporting period for the pension plans applicable to the members of the Executive Board.

Total remuneration of EUR 203 thousand was paid to the members of FMS-WM's Supervisory Board for 2019 (previous year: EUR 180 thousand).

Annual average number of employees

At 31 December 2019, FMS-WM had 103 employees (31 December 2018: 112). The average number of employees in fiscal year 2019 was:

	Women	Men	Total
Employees	39	68	107

Seats held by Executive Board members

In fiscal year 2019, the members of the Executive Board of FMS-WM held the following seats on a supervisory board or other supervisory bodies of large corporations in accordance with Section 340a (4) No. 1 HGB in conjunction with Section 267 (3) HGB.

Members of the Executive Board:

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

- Carola Falkner (from 1 July 2019):
  Non-executive member of the Board of Directors of DEPFA BANK plc, Dublin, (Group office held).

- Stephan Winkelmeier (until 30 June 2019):
  Member of the Supervisory Board of Bayerische Landesbank, Munich.
  Non-executive member of the Board of Directors (Chairman) of DEPFA BANK plc, Dublin, (Group office held).

- Frank Hellwig (until 30 September 2019):
  Non-executive member of the Board of Directors of DEPFA BANK plc, Dublin, and of DEPFA ACS BANK DAC, Dublin, (Group offices held).

REPORT ON POST-BALANCE SHEET DATE EVENTS

Due to the completion of sales in the current fiscal year 2020, as of the date of preparation of these annual financial statements the Commercial Real Estate segment had declined to a nominal volume of EUR 0.4 billion, divided up between eight remaining borrowers.

Since about mid-February 2020, the macroeconomic developments have been dominated by the spread of coronavirus (SARS-CoV-2 / COVID-19). This 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. The particularly severe impact of the spread of coronavirus in Italy could negatively impact not only the country's economic growth trend but also its debt.

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, 17 March 2020

FMS Wertmanagement
The Executive Board

Christoph Müller

Carola Falkner

INDEPENDENT AUDITOR'S REPORT

To FMS Wertmanagement AöR, München

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

Audit Opinions

We have audited the annual financial statements of FMS Wertmanagement AöR, München, which comprise the balance sheet as at 31 December 2019, the statement of profit and loss, cash flow statement and statement of changes in equity for the financial year from 1 January to 31 December 2019 and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of FMS Wertmanagement AöR for the financial year from 1 January to 31 December 2019.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2019 and of its financial performance for the financial year from 1 January to 31 December 2019 in compliance with German Legally Required Accounting Principles, and

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

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

Basis for the Audit Opinions

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

1 Adequacy of loan loss provisions in the customer lending business

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

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

1 Matter and issue

2 Audit approach and findings

3 Reference to further information

Hereinafter we present the key audit matters:

1 Adequacy of loan loss provisions in the customer lending business

(1) The customer lending business comprises loans and advances to customers, liabilities from guarantees and indemnity agreements as well as irrevocable loan commitments. In the annual financial statements of FMS-WM, receivables from customers amounting to € 15.7 billion, liabilities from guarantees and indemnity agreements amounting to € 0.7 billion and irrevocable loan commitments amounting to € 1.9 billion are reported. In the 2019 financial year, expenses of €0.3 billion incurred from the write-offs of claims and certain securities as well as additions to provisions in the lending business. The measurement of provisions for losses on loans and advances to customers is determined in particular by the estimates of the legal representatives with regard to future loan defaults, the structure and quality of the loan portfolios and macroeconomic factors and, where applicable, potential expected sales prices. The amount of the specific valuation allowances on loans and advances to customers corresponds to the difference between the loan amounts still outstanding and the lower value to be attributed to them on the balance sheet date. The amount of the individual provisions for contingent liabilities is based on the risk of utilization. Existing collateral is taken into account. For latent default risks, general valuation allowances and provisions are formed on the basis of the expected loss, which is determined on the basis of statistical data. The value adjustments in the customer lending business are of great importance for the assets and earnings situation of FMS-WM on the one hand and on the other hand involve considerable discretionary leeway for the legal representatives. In addition, the valuation parameters applied, which are subject to significant uncertainties, have a significant influence on the formation and amount of any necessary value adjustments. Against this background, this matter was of particular importance in the context of our audit.

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

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

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

1 For the purposes of accounting or presentation in the notes, FMS-WM determines the fair value for its financial instruments. If no active market or observable prices of comparable instruments are available, the fair value is determined using the company's own valuation models. Bonds and other fixed-income securities amounted to €65.4 billion at the balance sheet date. Of this amount, €10.6 billion relates to unlisted bonds and other fixed-income securities for which no observable market prices are available and whose fair values are determined based on our own valuation models. Derivatives in the amount of € 232.6 billion (nominal value) respectively €12.8 billion (positive fair value) and €51.6 billion (negative fair value) are held at the balance sheet date. These consist exclusively of unlisted OTC derivatives, the fair value of which is determined using the company's own valuation models. The key parameters of the valuation models used by FMS-WM are based on estimates that involve uncertainties and discretion. As a result, there are increased valuation uncertainties and valuation ranges for the fair values of these financial instruments. This applies in particular to complex financial instruments and the use of unobservable measurement parameters. Against this background and due to the potential effects of the existing valuation uncertainties on the annual financial statements, the determination of the fair value of model-valued securities and derivatives was of particular importance in the context of our audit.

2 As part of our audit, we analyzed in particular the model-valued securities and derivatives, with the focus on positions with increased valuation uncertainties. With the involvement of our internal valuation specialists, we assessed the adequacy of the valuation models used, the adequacy of the data supply procedures and the adequacy and effectiveness of the relevant controls of the internal control system of FMS-WM for the valuation of the securities and derivatives concerned. The subject of these controls is the independent verification of the price sources and valuation parameters used and the independent validation of the valuation models. In addition, we carried out an own, independent and risk-oriented revaluation for selected illiquid financial instruments as of the balance sheet date and compared the results with the values determined by the company. The fair values of securities and derivatives determined based on the valuation methods and assumptions applied by the legal representatives are within reasonable ranges in our opinion.

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

Other Information

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

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

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

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

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the supervisory board on 29 March 2019. We were engaged by the supervisory board on 29 March 2019. We have been the auditor of the FMS Wertmanagement AöR, München, without interruption since the financial year 2018.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Munich, 17 March 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

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