

**CREDIT OPINION**

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Update

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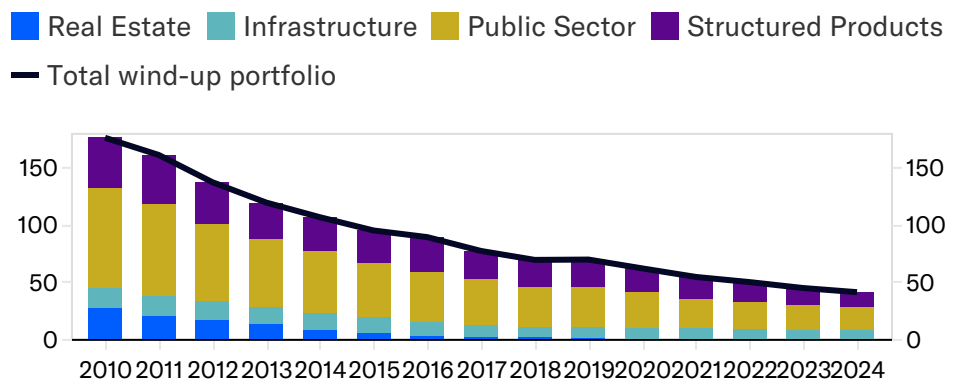
**FMS Wertmanagement – Aaa Stable**

Regular update

**Summary**

Our credit view of [FMS Wertmanagement](#) (FMS-WM) reflects its very close relationship and linkages with the [Government of Germany](#) (Aaa stable) and a consistent track record of financial support. FMS-WM benefits from an explicit guarantee and loss compensation through the Financial Market Stabilisation Fund (FMS, formerly SoFFin). This effectively eliminates risks stemming from weak asset quality and the large asset-liability maturity mismatch, and FMS-WM's debt ultimately becomes an obligation of the German sovereign. We therefore rate the institution on par with Germany at Aaa with a stable outlook.

Exhibit 1  
**FMS-WM's wind-up portfolio declined by 77% since the portfolio transfer**  
€ billion, end-of-period



[1] The 2010 data refers to the transfer date of October 1, 2010  
Source: FMS Wertmanagement and Moody's Ratings

**Credit strengths**

- » Explicit guarantee and loss compensation through the FMS
- » Strong and consistent track record in implementing wind-up plan

**Credit challenges**

- » Very weak asset quality as a result of portfolio concentrations of long-maturity, complex and illiquid assets as well as low margins
- » Large maturity mismatch between assets and liabilities

## Rating outlook

The rating outlook for FMS-WM's Aaa rating is stable, in line with the stable outlook on Germany's sovereign rating.

## Factors that could lead to a downgrade

Any change to the rating of the Government of Germany would have a direct and immediate impact on the rating of FMS-WM. Although not expected, any changes to the current legal and contractual framework that would weaken the link to the German sovereign would also negatively affect FMS-WM's rating.

## Key indicators

Exhibit 2

FMS Wertmanagement	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total assets (EUR bn)	333.3	341.8	246.4	187.7	183.6	171.1	177.2	157.3	144.7	146.5	145.8	124.3	99.0	88.4	79.6
Wind-up portfolio (EUR bn) [1]	174.3	160.7	136.9	119.1	106.3	94.7	88.9	76.8	69.0	69.3	61.6	54.1	49.6	44.4	40.8
Amount of debt issued on capital market (EUR bn) [2]	10.2	20.8	34.9	11.0	11.6	12.3	15.8	19.3	5.7	30.0	11.7	31.7	6.3	6.0	11.0
Own capital (EUR bn)	0.00	0.00	0.04	0.12	0.43	0.73	1.04	1.40	1.52	1.75	1.77	1.82	1.87	1.90	1.92
Operating result (EUR bn)	-3.04	-9.96	0.04	0.15	0.37	0.41	0.39	0.43	0.11	0.25	0.03	0.04	0.08	0.10	0.04
Provisions & net income from investments (EUR bn)	-2.97	-10.25	-0.43	-0.26	0.03	0.04	-0.14	-0.20	-0.11	0.02	-0.26	-0.18	-0.18	-0.32	-0.41

Data refers to year-end. [1] The initial wind-up portfolio transferred from HRE Group to FMS-WM amounted to €175.7 billion in October 2010. [2] Includes long-term EUR-denominated capital market funding through the FMS since 2019.

Source: FMS Wertmanagement and Moody's Ratings

## Detailed credit considerations

FMS-WM is a German wind-up institution established in 2010 to wind up a €175.7 billion<sup>1</sup> portfolio of risk exposures and non-strategic assets from the Hypo Real Estate Group (HRE). While FMS-WM may engage in those banking and financial service transactions that serve its purposes, FMS-WM does not hold a banking license and therefore has no access to European Central Bank (ECB) funding. At the same time, FMS-WM is not subject to banking regulation and is free from regulatory requirements relating to capital and liquidity. FMS-WM is supervised by the Federal Agency for Financial Market Stabilisation (FMStF).

We rate FMS-WM on par with the Government of Germany. This is because of the explicit guarantee provided by FMS for FMS-WM's liabilities (with a grandfathering of the outstanding debt of FMS-WM). This guarantee has been in place since January 2014 and means that FMS will be directly liable to third parties. It allows debtholders of FMS-WM to apply a 0% risk weight under Basel III rules for FMS-WM debt issues.

This explicit guarantee is stronger than the loss compensation clause, which obliges FMS to pay promptly, and no later than on the third business day following a request, any amount which the Executive Board of FMS-WM deems necessary to meet FMS-WM's liabilities in full and in a timely manner. Although the loss compensation clause only constitutes an implicit guarantee, we viewed it as sufficiently strong to link FMS-WM's rating directly to that of the German sovereign.

The methodological approach for rating FMS-WM on par with the German sovereign, whereby FMS-WM's credit rating is fully substituted by that of the German sovereign, is described in our cross-sector rating methodology "[Guarantees, Letters of Credit and Other Forms of Credit Substitution Methodology](#)". As a consequence, FMS-WM's credit metrics such as asset quality and capital adequacy do not have an impact on the credit rating of FMS-WM. Under the credit substitution approach, the credit rating of FMS-WM is driven solely by the German sovereign credit rating.

FMS-WM was established as a public law entity pursuant to Section 8a of the Financial Market Stabilisation Fund Act (FMStFG). The legal basis for the application of credit substitution to FMS-WM's rating is its charter and the FMStFG. The loss compensation obligation is established by §7 of the FMS-WM Charter, and the general liability for FMS' obligations by the German sovereign is set out in Section 5 of the FMStFG.

In May 2014, FMS-WM was mandated to wind up DEPFA Bank plc, with total assets of €48.5 billion<sup>2</sup> as of December 2014. DEPFA was a subsidiary of HRE Group, which transferred certain non-strategic assets to FMS-WM in 2010. Following a decision by the European

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Commission in July 2011, DEPFA was not allowed to generate new business, subject to certain exceptions, unless the company was privatised. Since this privatisation did not occur in 2014, the interministerial steering committee of FMSA decided to transfer the ownership of DEPFA from HRE Group to FMS-WM.

The transfer of ownership from HRE Group to FMS-WM was completed in December 2014, when FMS-WM acquired all DEPFA equity at a purchase price of €320 million. DEPFA became a 100% subsidiary of FMS-WM, managed as an independent financial investment.<sup>3</sup>

FMS-WM made a public sale announcement of DEPFA on 14 July 2020 to sell 100% of the shares in DEPFA Bank plc in an open, transparent and non-discriminatory auction sale process. On 15 February 2021, FMS-WM announced that it had reached a definitive agreement to sell its bank subsidiary, DEPFA, and its covered-bond-issuing subsidiary, DEPFA ACS, to the Austrian banking group [BAWAG P.S.K. AG](#) (BAWAG, A1/A1 positive, baa1<sup>4</sup>). The closing of the sale took place on 19 November 2021, after the necessary regulatory approval had been obtained.

## ESG considerations

### How environmental, social and governance risks inform our credit analysis of the FMS-WM

Since FMS-WM's rating is derived by credit substitution from Germany's rating, the FMS-WM's ESG considerations mirror those of Germany.

## Recent developments

### Further reduction of the wind-up portfolio in 2024 was in line with FMS-WM's plans

The nominal value of FMS-WM's wind-up portfolio decreased by 8.1% to €40.8 billion in 2024, down from €44.4 billion at the end of 2023. When excluding currency effects, the decrease in the wind-up of the portfolio by €4.8 billion was in line with the initial target of €4 billion to €6 billion. Reverse foreign currency effects lowered the reduction of the wind-up portfolio to €3.6 billion. From its €175.7 billion nominal transfer value in October 2010 until the end of 2024, the cumulative reduction of the nominal value of the wind-up portfolio has reached €134.9 billion.

### FMS-WM continued to post profits on its ordinary activities in 2024

FMS-WM has posted profits on its ordinary activities since 2012, which partially offsets a significant loss of almost €10 billion in 2011, mainly because of a large write-down of €8.9 billion worth of Greek sovereign debt holdings. Profits on ordinary activities amounted to €41 million in 2024, down from €96 million in 2023 and €77 million in 2022. This moderation was primarily driven by the progressive unwinding of the portfolio, coupled with a positive shift in net interest income, which increased to €554 million in 2024 from €528 million in 2023, mainly attributable to higher average interest rates in FMS-WM's key markets, and a further reduction in general administrative expenses. Net retained profits are accumulated, and equity reached €1.9 billion at the end of 2024.

### The complexity of FMS-WM's portfolio was further reduced in 2024, but portfolio concentration remains high with long remaining maturities

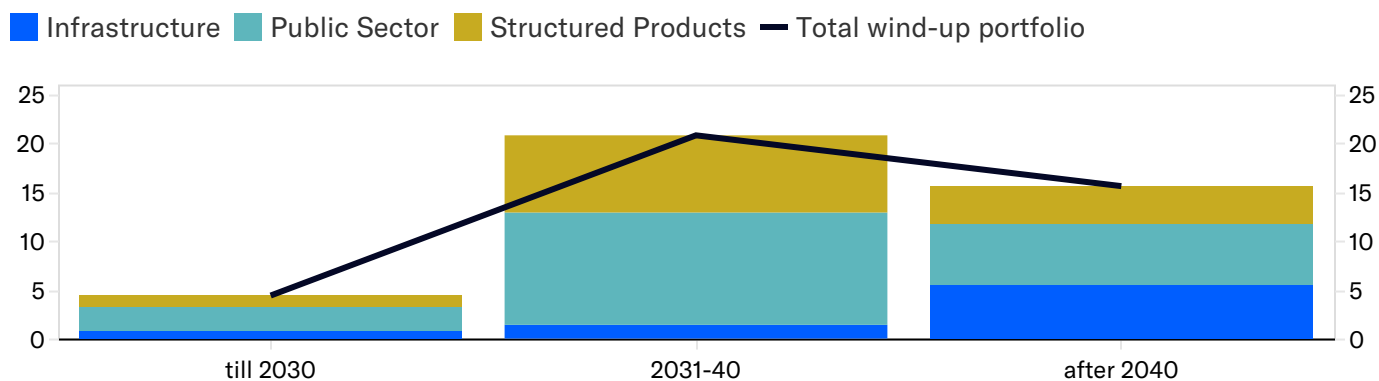
The portfolio of FMS-WM is significantly concentrated, with about 44% of the total portfolio volume represented by the 10 largest borrowers. At the end of 2024, the public sector represented 49.3% of the total assets in the windup portfolio, structured products 31.6%, and infrastructure 19.1%.<sup>5</sup> The largest exposure in terms of geography is the [United Kingdom](#) (UK, Aa3 stable) with 39.3%, mainly in local authorities but also infrastructure projects, followed by 22.7% in [Italy](#) (Baa3 positive) and 14% in the [United States](#) (US, Aa1 stable).

In terms of currency, the share of EUR-denominated assets stood at 41%, USD-denominated at 30%, GBP-denominated at 27%, and other currencies at 3%. In 2024, the portfolio's geographic concentration was slightly reduced, with the number of countries holding FMS-WM commitments decreasing to 23, from 28 in 2023 and 66 in 2010. Additionally, all remaining obligations denominated in the Mexican peso (MXN) were successfully wound down, resulting in a total of seven currencies by the end of 2024. However, due to the long remaining maturities of a substantial part of the portfolio, the risk concentration is expected to increase as the reduction progresses. Notably, 89% of the assets mature after 2030 and 38% after 2040 (see Exhibit 3).

Exhibit 3

**Most of FMS-WM's portfolio matures between 2031 and 2040**

€ billion (as of end-2024)



Source: FMS Wertmanagement and Moody's Ratings

The significant concentration combined with long maturities poses challenges for the further windup of the portfolio. In addition, contractual repayments, which have largely driven the pace of asset sales, are set to fall. Consequently, the reduction of FMS-WM's windup portfolio is likely to slow down over the coming years as it will become increasingly difficult to sell the remaining assets. That said, FMS-WM expects the windup portfolio to reduce nominally by around €2 billion to €3 billion in 2025, mostly driven by the infrastructure sector and structured products.

Moreover, the bonds and securities held by FMS-WM are typically part of an asset swap package attached to derivatives, which are mostly used to hedge interest-rate, inflation, or currency risk. Selling those assets ahead of schedule would imply that the derivatives would have to be closed ahead of the original maturity, resulting in significant losses. As a consequence, a hold-to-maturity strategy promises better results in line with the value maximisation objective of FMS-WM in the interest of the German taxpayer. Simultaneously to the asset reduction, FMS-WM will also further reduce its operating costs. Total administrative costs were down to €96 million in 2024 from €102 million in 2023 and €348 million in 2011, mostly driven by a decrease in expenses for portfolio services and a reduction in IT costs.

In FMS-WM's loan portfolio, credit quality is supported through exposure to public sector entities and partially backed by sovereign guarantees. Ratings of assets in the bond portfolio are mainly investment grade. Only about 4% of the total portfolio is classified as "watchlist" or "problem" assets (€2.1 billion at the end of 2024), with the share and amount having slightly decreased compared to 2023 (5% or €2.7 billion at the end of 2023).

### Organizational realignment of FMS Wertmanagement by 2027

Following an evaluation of strategic options for future organizational and operational structures conducted in 2024, FMS-WM plans a merger between FMS-WM and its own service entity, FMS Wertmanagement Service GmbH (FMS-SG) by 2027, and it aims to overhaul its IT landscape by consolidating and standardizing it, including the integration of cloud technologies. Beginning in 2027, portfolio servicing will be provided by FMS-WM, restricting outsourcing to IT services in alignment with future objectives. These changes are expected to significantly reduce the number of employees and administrative costs.

### Funding costs continue to materially benefit from federal on-lending

FMS-WM is an established issuer on international capital markets with a euro-denominated benchmark curve and issuances of USD- and GBP-denominated bonds. Through its own issuances, FMS-WM was able to replace all ECB funding on its liability side, inherited from HRE, by March 2012. By 30 June 2014, FMS-WM achieved its targeted Term Funding Ratio of 50%/50% between Money and Capital Markets, which has been maintained or overachieved since then. The share of money market funding was 4% at the end of 2024, compared to 7% at the end of 2023. FMS-WM's debt market issuances have also contributed to improving its asset-liability maturity mismatch relative to its launch in 2010.

The Finance Agency of the Federal Republic of Germany took over long-term EUR-denominated capital market funding through the FMS as scheduled at the beginning of 2019. This not only lowered funding costs for FMS-WM but also increased the average maturity of FMS-WM's outstanding debt. The maximum amount that FMS-WM can raise through the FMS is €60 billion, which was increased from an initial amount of €30 billion at the end of 2020. By the end of 2024, most of the funding facility had been utilized, amounting to €55.9 billion, after €55.4 billion in 2023. FMS-WM had used €53.7 billion funding through FMS by the end of May 2025.

That said, FMS-WM has maintained its presence in the international capital markets by raising short-term funding (particularly in EUR, USD, and GBP) and long-term funding in foreign currencies. Due to the explicit guarantee by FMS, investors can apply a 0% risk weighting to FMS-WM bonds. In 2024, funding needs were mainly covered via long-term EUR-denominated capital market funding through the FMS, with a volume of €11 billion. At the end of 2024, FMS-WM utilized €55.9 billion out of the €60 billion in funding through FMS. Issuances under its capital market funding amounted to €2.3 billion. The US commercial paper program amounted to €2.3 billion as of the end of 2024.

## Endnotes

- [1](#) According to German GAAP accounting standards.
- [2](#) According to IFRS accounting standards.
- [3](#) DEPFA remained a regulated bank under Irish law and, unlike FMS-WM, subject to the EU Bank Resolution and Recovery Directive (BRRD).
- [4](#) The ratings shown are BAWAG's deposit rating, senior unsecured debt rating and baseline credit assessment (BCA).
- [5](#) There are currently five remaining real estate-related assets, which have been grouped under "Infrastructure" since December 2021.

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