FMS Wertmanagement AöR

Annual Report 2023

Mandate:
Profitable wind-up of the portfolio

FMS Wertmanagement AöR

Munich

FMS Wertmanagement Service GmbH

Unterschleißheim

Fiscal year 2023

Portfolio wind-up target at EUR 5.0 billion achieved

Profit from ordinary activities of EUR 96 million

Net interest income still significantly higher than administrative expenses

Complexity of the portfolio reduced to achieve medium-term objectives

Measures implemented to reduce administrative expenses

Transformation process of FMS-WM and FMS-SG driven forward jointly

Valuation and wind-up measures impact on the balance of risk provisions and net income from investments

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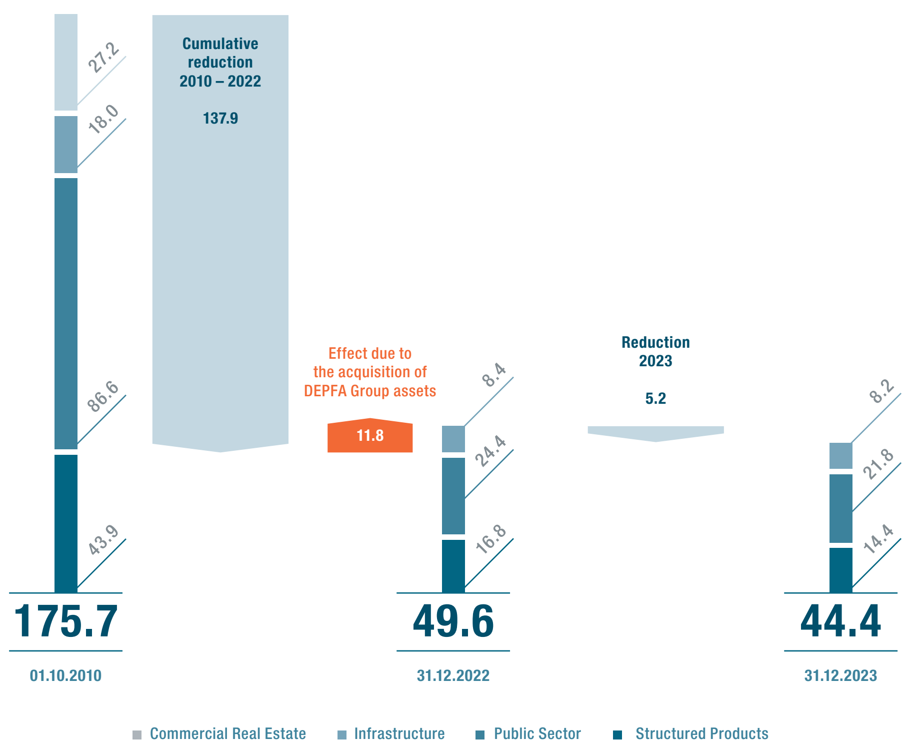
At a glance

DEVELOPMENT OF THE PORTFOLIO OF FMS WERTMANAGEMENT (FMS-WM)

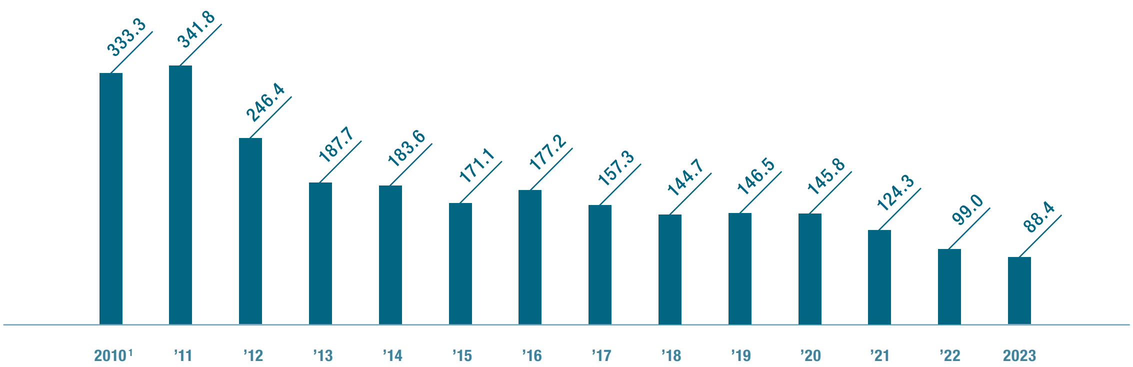
(nominal values in EUR billion)



All wind-up figures and portfolio effects including currency effects.

TOTAL ASSETS FMS-WM

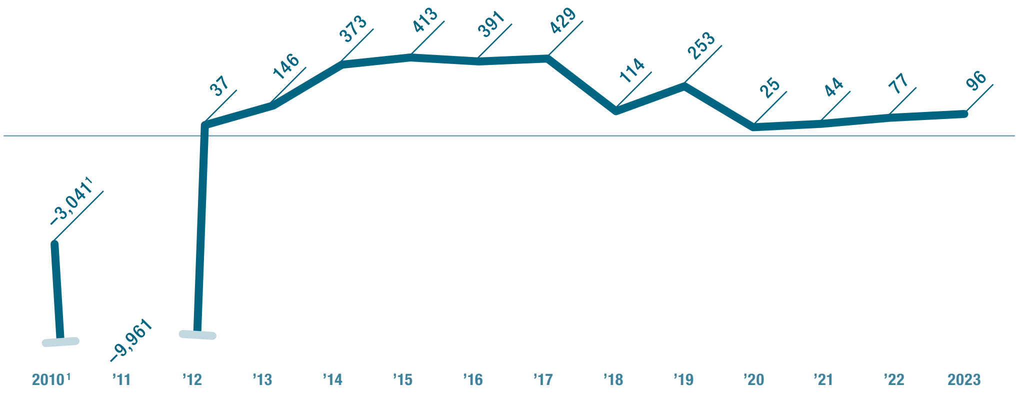
(in EUR billion at year-end)



[1] *Short fiscal year from 08.07. – 31.12.2010*

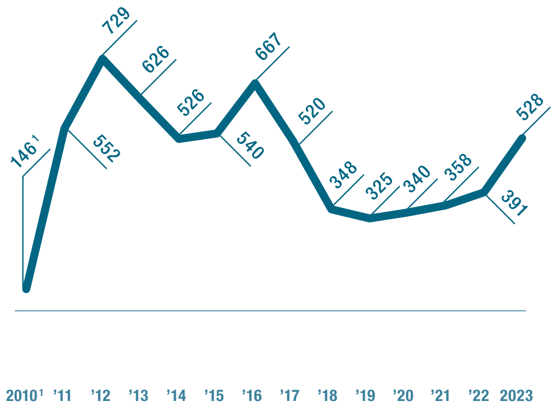
RESULT FROM ORDINARY ACTIVITIES

(in EUR million)



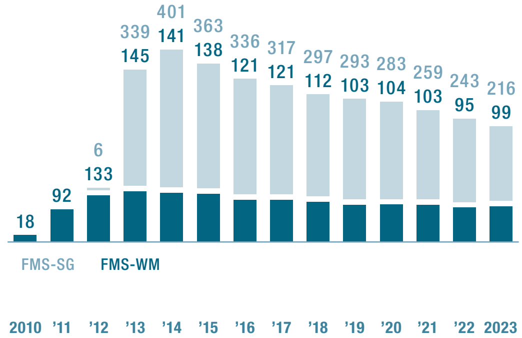
NET INTEREST INCOME

(in EUR million)



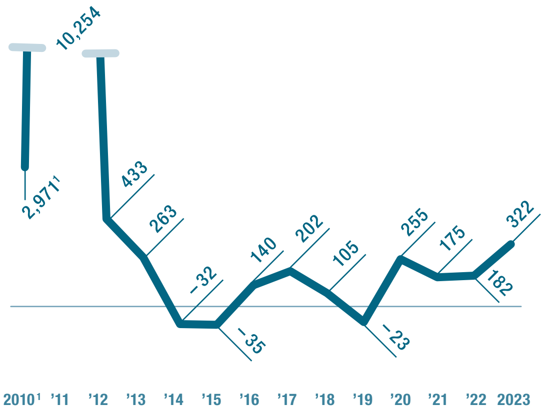
EMPLOYEES

(number at year-end)



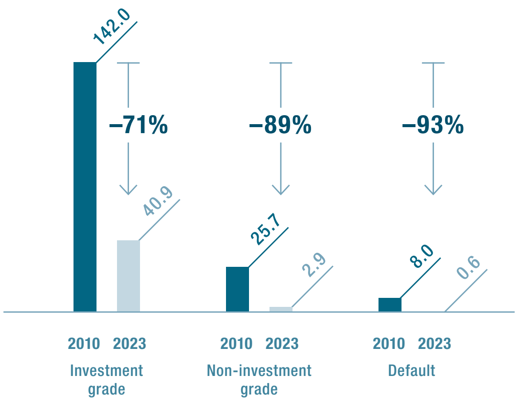
RISK PROVISIONS INCL. NET INCOME FROM INVESTMENTS

(in EUR million)



DEVELOPMENT OF THE FMS-WM PORTFOLIO'S RATING DISTRIBUTION

(nominal volume in EUR billion)



[1] Short fiscal year from 08.07. – 31.12.2010

A successful fiscal year 2023 for FMS Wertmanagement

*Christoph Müller, Spokesman of the Executive Board;
Carola Falkner, Member of the Executive Board*

FMS Wertmanagement (FMS-WM) closed fiscal year 2023 with a clearly positive result for the year. The *result from ordinary activities* for fiscal year 2023 came to EUR 96 million.

At EUR 528 million, *net interest income* again rose significantly compared to the previous year (EUR 391 million). This increase is due mainly to a higher interest rate level in the currencies relevant to FMS-WM and improved funding terms, which more than compensate the offsetting effects of the progressive unwinding of the portfolio. Net interest and commission income continue to exceed FMS-WM's administrative expenses by a large margin.

The balance of risk provisions and net income from investments in the amount of EUR –322 million (previous year: EUR –182 million) was impacted by valuation and sale decisions and had a considerably negative effect on the result in fiscal year 2023. Risk provisions were significantly impacted by the first-time allocation to the fund for general banking risks in accordance with Section 340g HGB.

As at 31 December 2023, total assets decreased by 11% to EUR 88.4 billion compared to the prior-year balance sheet date. This was mainly due to the unwinding of exposures and termination of derivatives as well as a decline in liquid funds.

In fiscal year 2023, *portfolio wind-up* came to EUR 5.0 billion and was the result of disposals and both scheduled and unscheduled repayments. Since the transfer from the HRE Group, and excluding countervailing currency effects, the nominal value of the portfolio was reduced by a total of EUR 133.0 billion as at 31 December 2023. The targets for the unwinding of the portfolio and further reducing its complexity were therefore achieved in fiscal year 2023 despite numerous macroeconomic challenges.

As in previous years, net retained profits reported in the amount of EUR 36 million will be accumulated rather than distributed. FMS-WM reports equity of EUR 1.9 billion as at 31 December 2023. Together with risk provisions and the fund for general banking risks, this serves as a buffer for any losses that might still arise during the further unwinding of the portfolio.

In fiscal year 2023, *employees* at all FMS-WM and FMS Wertmanagement Service GmbH (FMS-SG) locations once again made the most significant contribution in driving forward the wind-up while at the same time maintaining high-quality, stable processes.

FMS-WM's statutory auditor audited the annual financial statements as at 31 December 2023 and the management report for fiscal year 2023 and issued an unqualified auditors' report.

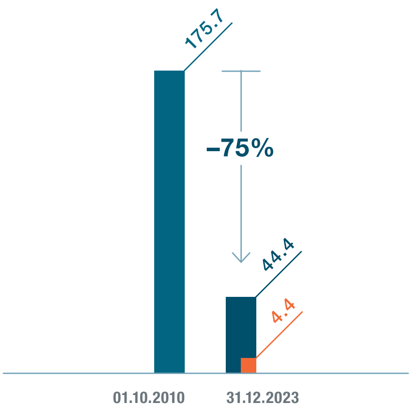
On 22 March 2024, the Supervisory Board of FMS-WM approved the annual financial statements prepared by the Executive Board.

In fiscal year 2023, FMS-WM continued to make good progress on its task of unwinding and liquidating the transferred exposures as profitably as possible.

The measures to unwind and manage the portfolio, optimise funding and further develop the business model were once again the focal point of FMS-WM's work in 2023. Based on a lower-risk and significantly less complex portfolio, the *operating model of the FMS-WM Group* (FMS-WM and FMS-SG) is being further developed to ensure high-quality, operationally stable and cost-effective portfolio management. In doing so, consideration is also being given to options to transfer some parts of exposure management to third parties insofar as this is economically worthwhile.

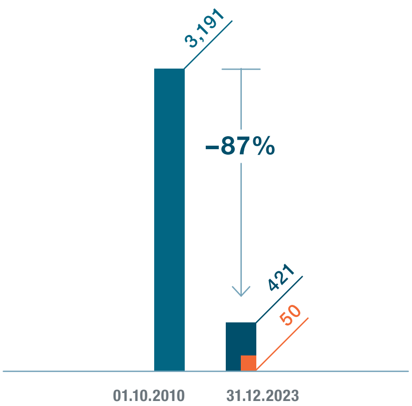
FMS-WM OVERALL PORTFOLIO

DEVELOPMENT OF THE NOMINAL VOLUME (IN EUR BILLION)



■ Portfolio subsequently acquired from the DEPFA Group

DEVELOPMENT OF THE NUMBER OF COUNTERPARTIES



■ Portfolio subsequently acquired from the DEPFA Group

Portfolio wind-up

Since the portfolio was transferred from the HRE Group on 1 October 2010, its original nominal value of EUR 175.7 billion has been reduced to EUR 44.4 billion as at the end of 2023. Adjusted for the assets acquired from DEPFA Group companies in fiscal years 2016 to 2020 with a total acquisition-date nominal value of EUR 11.8 billion, the original portfolio has been reduced by around 77% by the end of 2023.

Portfolio wind-up targets achieved in 2023

FMS-WM was able to reduce the complexity of the portfolio again in fiscal year 2023 and thus continue to pave the way for the implementation of measures to further develop the operating model. Since the portfolio was taken over in 2010, the number of countries in which FMS-WM still holds exposures has been reduced from 66 to 28 countries (see chart on page 6 and 7). In 2023, the number of countries in which exposures are still held was reduced by a further three countries. Since the portfolio was taken over, the currencies contained in the portfolio have likewise further decreased from originally 19 to 8 currencies at the end of 2023. All remaining CHF-denominated exposures were unwound in 2023.

CURRENCIES CONTAINED IN THE PORTFOLIO

AUD	DKK	ITL	SEK
CAD	ESP	**JPY**	SGD
CHF	**EUR**	**MXN**	**USD**
CLF	**GBP**	NOK	**ZAR**
CZK	INR	PLN	

■ Currencies in the portfolio as of 31.12.2023
■ Currencies already wound-up since October 2010

In 2010, there were originally 3,191 counterparties in FMS-WM's portfolio. Since the transfer from the HRE Group, the number had been reduced to 421 counterparties as at the end of 2023. Through sales as well as scheduled and actively pursued repayments, FMS-WM succeeded in reducing the number of counterparties by 95 in 2023.

There are still clear portfolio concentrations in the United Kingdom, Italy and the USA, which together accounted for around 73% of the nominal value of the portfolio as at 31 December 2023. As the portfolio is progressively wound up, these concentrations of risk caused by the long maturities of the rest of the portfolio continue to rise.

Portfolio reduced by a further three countries

The difficult market environment attributable to the ongoing wars in Ukraine and the Middle East, continued interest rate hikes by central banks and other factors was and remains very challenging for the unwinding of the portfolio, which consists largely of complex, very long-dated and illiquid financing arrangements with low margins not in line with the market. Nevertheless, in fiscal year 2023 FMS-WM was once again successful in its wind-up activities in all segments, thereby further reducing risks and complexity.

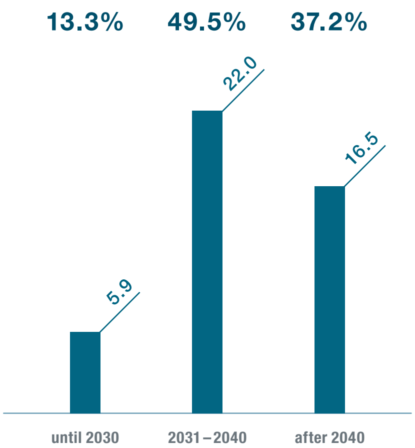
In the *Infrastructure* segment, which made up 18% of the portfolio as at 31 December 2023, FMS-WM was able to sell or liquidate a portfolio of ten long-dated loans totalling approximately EUR 125 million and a number of related derivatives. This financing was for the social infrastructure sector in the United Kingdom. The transaction is proof of the active work to reduce concentrations of risk and the complexity of the portfolio.

The *Structured Products* segment was reduced by a total of EUR 2.4 billion through repayments and selling activity, particularly in the case of French and Spanish financing and some of the last American public-sector bonds (US municipals).

In the *Public Sector* segment, the borrowers and issuers of securities include state and regional governments, municipalities, public law entities and semi-public companies. Above all in fiscal year 2023, FMS-WM made progress in unwinding European loan exposures and sold a fragmented, Dutch loan portfolio comprising 43 loans totalling approximately EUR 363 million and with remaining terms of up to 25 years. It was thus able to fully wind up this sub-segment of similar loans. In the first quarter of 2024, a further portfolio of 28 loans totalling approximately EUR 68 million was successfully sold to Italian municipalities. This sale was extensively prepared in 2023 and driven forward at great effort by FMS-WM and FMS-SG.

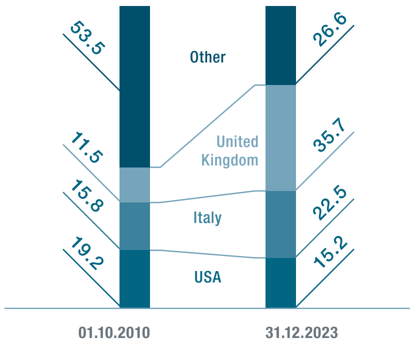
BREAKDOWN OF THE PORTFOLIO BY REMAINING MATURITIES

(IN EUR BILLION)



PORTFOLIO DISTRIBUTION BY COUNTRY

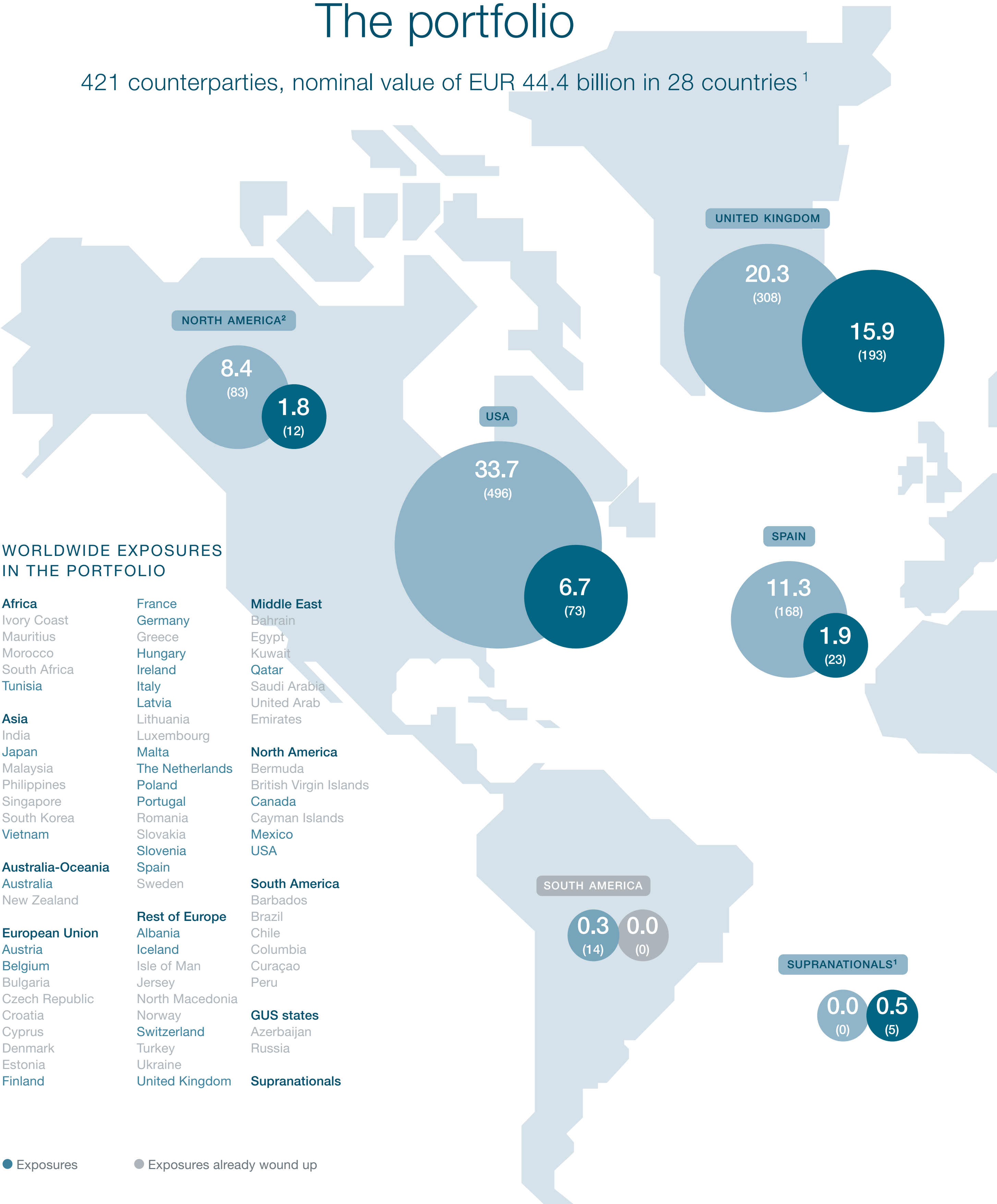
(IN % OF NOMINAL VOLUME)



The Public Sector segment also includes Lender Option Borrower Option Loans (LOBOs). These are complex financial transactions in which loans were issued to towns, cities and other local authorities in the United Kingdom. FMS-WM holds LOBOs with a nominal value of approximately GBP 2.2 billion and terms through to 2078 in some cases. In the past, selling loans and closing out hedging derivatives would have entailed heavy losses, as the hedging derivatives had high negative market values because interest rates were low. Due to the rise in interest rates in the GBP environment, FMS-WM believes that the hedging derivatives' market values have improved. Nevertheless, the products are still very illiquid.

The portfolio

421 counterparties, nominal value of EUR 44.4 billion in 28 countries [1]



WORLDWIDE EXPOSURES IN THE PORTFOLIO

Africa
Ivory Coast
Mauritius
Morocco
South Africa
Tunisia

Asia
India
Japan
Malaysia
Philippines
Singapore
South Korea
Vietnam

Australia-Oceania
Australia
New Zealand

European Union
Austria
Belgium
Bulgaria
Czech Republic
Croatia
Cyprus
Denmark
Estonia
Finland
France
Germany
Greece
Hungary
Ireland
Italy
Latvia
Lithuania
Luxembourg
Malta
The Netherlands
Poland
Portugal
Romania
Slovakia
Slovenia
Spain
Sweden

Rest of Europe
Albania
Iceland
Isle of Man
Jersey
North Macedonia
Norway
Switzerland
Turkey
Ukraine
United Kingdom

Middle East
Bahrain
Egypt
Kuwait
Qatar
Saudi Arabia
United Arab Emirates

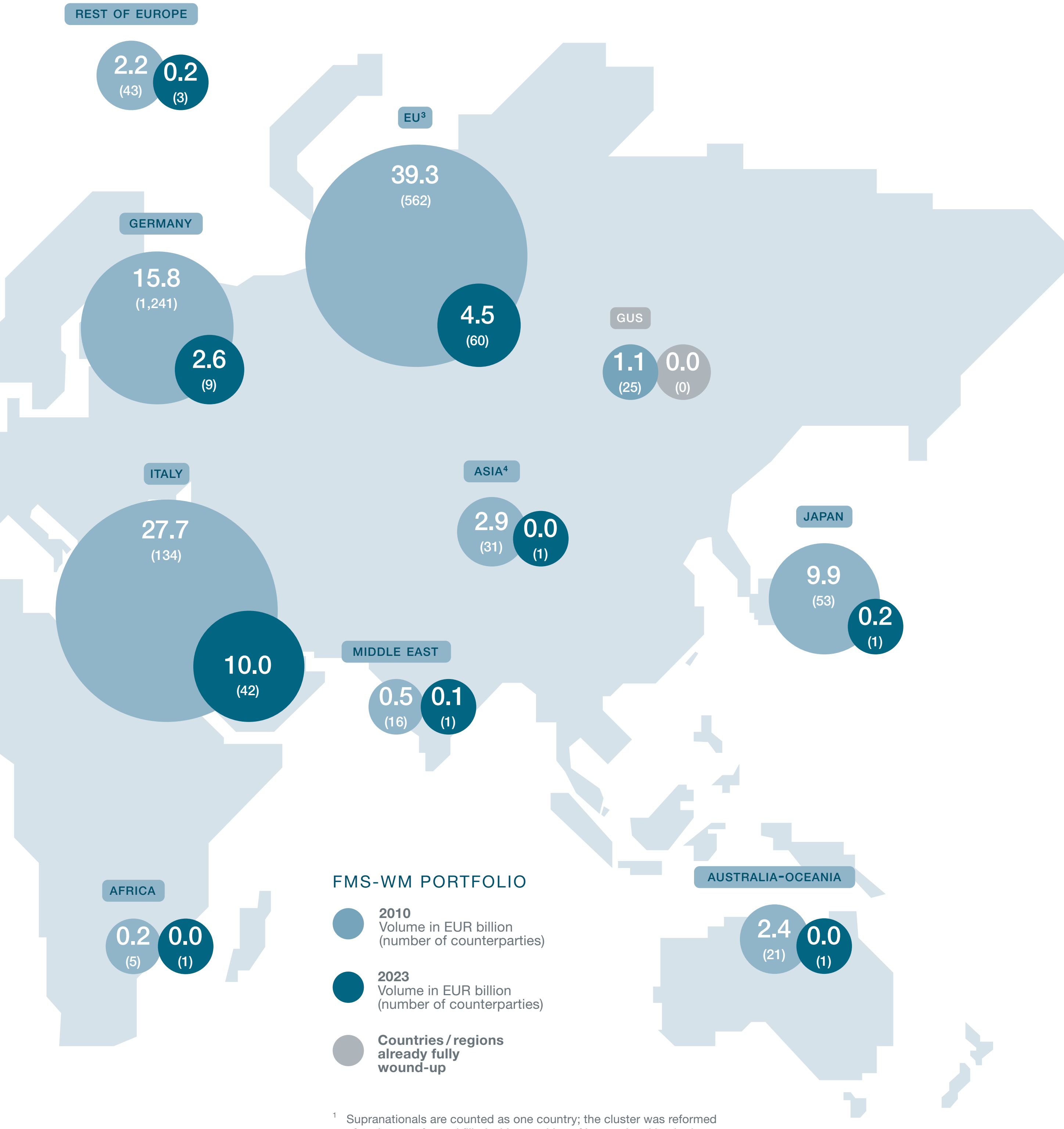
North America
Bermuda
British Virgin Islands
Canada
Cayman Islands
Mexico
USA

South America
Barbados
Brazil
Chile
Columbia
Curaçao
Peru

GUS states
Azerbaijan
Russia

Supranationals

● Exposures
● Exposures already wound up



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

FMS-WM devotes considerable time and attention to this fragmented and long-dated portfolio and examines opportunities to wind down these loans or reduce their complexity.

In addition, FMS-WM continues to pursue the wind-up strategy for a portion of the *derivatives portfolio* that is not permanently in hedging relationships with portfolio exposures or funding instruments. The majority of these derivatives had been successfully unwound by the beginning of 2024 and the holdings reduced to 38 transactions with maturities after 2024. In fiscal year 2023, 223 derivatives with maturities after 2024 were closed out.

From a credit profile perspective, FMS-WM's portfolio was not affected by the wars in Ukraine and the Middle East in fiscal year 2023. FMS-WM did not hold any exposures with counterparties or maintain business relationships with parties from the countries involved. The credit quality of FMS-WM's portfolio was not materially negatively affected by the trend in interest rates, the trend in inflation expectations or the financial and capital market volatility during the course of the fiscal year. In fiscal year 2023, there were no loan defaults or cases of deferrals approved by FMS-WM. At 93%, the percentage of investment grade financing remains at a high level.

As was the case when the portfolio was taken over in 2010, most of the exposures are usually part of asset swap packages in which they are attached to derivatives that are used to hedge interest rate, inflation or currency risk. If the exposures were sold prematurely, those derivatives would have to be closed out ahead of the maturity date, possibly causing heavy losses. The balance of hidden losses and reserves relating to the portfolio and the associated derivatives, determined in part based on model valuations and assuming saleability of loans, amounted to EUR –9.6 billion as at 31 December 2023, a decrease of EUR 0.3 billion compared with 31 December 2022. It is still the case that selling all exposures immediately or at short notice while at the same time closing out the related derivatives would only be possible at a considerable loss.

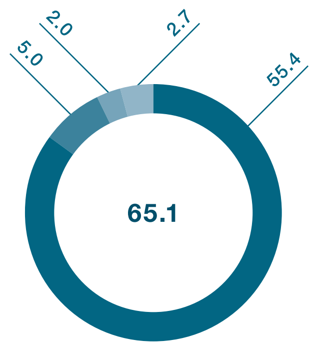
Cost-effective funding

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

Since January 2019, longer-term euro-denominated funding of FMS-WM has been carried out by funds provided by the FMS. FMS-WM also continued to optimise its funding in 2023, utilising most of the EUR 60 billion funding facility provided via the FMS. In total, new funding of EUR 6.0 billion was raised. As at 31 December 2023, funding drawn via the FMS therefore accounted for 85% of FMS-WM's total funding.

FMS-WM uses the funds drawn down via the FMS for funding in euros and, in conjunction with foreign exchange derivatives, for selected foreign currencies. This strategy enabled the funding costs both for the long-dated portfolio in British pounds and for fund raising in US dollars to be reduced significantly.

FUNDING STRUCTURE OF FMS-WM
(IN EUR BILLION)



In return, FMS-WM rolled back its own activities in the capital markets. In 2023, FMS-WM for the first time did not launch any issues under the debt issuance programme, enabling it to save the related costs. Although it remains possible to raise funds through the capital market going forward, there are no plans to do so at the present time.

Funding strategy makes a significant contribution to FMS-WM's success

FMS-WM itself continues to ensure *short-term money market funding* via the two established money market programmes (European Commercial Paper Programme and US Commercial Paper Program). The two programmes had a funding volume equivalent to EUR 4.7 billion at 31 December 2023 (previous year: EUR 9.0 billion).

In fiscal year 2023, FMS-WM also worked on the overhaul of benchmark interest rates for floating-rate financial instruments (benchmark reform) after the successful completion of the Post-IBOR project. The focus here was on the remaining US dollar-denominated contracts, which in 2023 were changed over to the risk-free benchmark the Secured Overnight Financing Rate (SOFR).

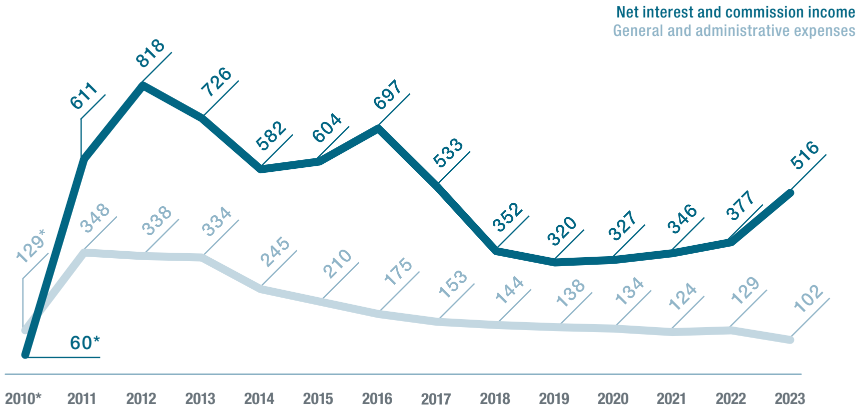
Portfolio management

Net interest and commission income again was up year-on-year to EUR 516 million (previous year: EUR 377 million), continuing the previous year's positive trend, primarily as a result of the rise in interest rates in currencies relevant to FMS-WM.

The general and administrative expenses in fiscal year 2023 amounted to EUR 102 million (previous year: EUR 129 million). In the previous year, this figure still included one-off effects of EUR 15 million associated with the IT transition in 2022. Independently of this, expenses associated with outsourcing were further reduced significantly in fiscal year 2023. One key factor here was the fall in expenses for FMS-SG, whose New York office ceased operations at the end of 2022

NET INTEREST AND COMMISSION INCOME VS. ADMINISTRATIVE COSTS

(IN EUR MILLION)



*Short fiscal year

Net interest and commission income continues to exceed administrative expenses by far

In order to achieve the medium-term objectives, FMS-WM and FMS-SG continue to work on simplifying processes and optimising the organisational structure of the FMS-WM Group. In recent years, measures have been brought forward, enabling savings to be achieved earlier than originally planned. The measures are aimed at reducing IT, personnel and other operating expenses.

By making the successful transition in 2022, FMS-WM took a major step forward in modernising its IT landscape. At the same time, FMS-WM laid the foundations for implementing digitalisation projects, expanding IT security measures and achieving its targets for reducing IT expenses. Due to increased regulatory requirements applicable to IT and IT security, FMS-WM is also seeing a general increase in market prices for IT services. These effects were successfully countered by adapting the requirements for IT services and license expenses to the development of FMS-WM, and current expenses were kept largely stable. FMS-WM is continuously working together with IT service providers to identify potential, in particular to achieve further savings on current IT costs related to IT infrastructure and licences and by using software-as-a-service or cloud solutions.

The changes to headcount in the FMS-WM Group went to plan again in fiscal year 2023. The measures taken over the past few years have already enabled significant savings to be made on personnel costs in the FMS-WM Group.

Other operating costs were also reduced substantially in 2023. This was due mainly to savings on rent.

In 2022, the licences to provide financial services requiring approval were returned, thereby achieving further savings for FMS-SG, as the related regulatory requirements ceased to apply. In addition to the complete dismantling of FMS-SG's processes, other processes that are not subject to regulations for banks can be designed more flexibly to cater to the requirements of FMS-SG. The dissolution of the Supervisory Board of FMS-SG in September 2023 further simplified corporate management in the FMS-WM Group.

Overall in fiscal year 2023, the FMS-WM Group once again successfully carried out measures to implement its medium-term objectives while reducing administrative expenses and lay the necessary foundations.

Employees

As at 31 December 2023, 99 people were employed at FMS-WM and 216 at FMS-SG.

Unwinding the portfolio is a complex task where FMS-WM has undertaken to act with the utmost professionalism and is convinced that motivated, qualified and loyal employees are an essential success factor for the organisation.

Together, FMS-WM and FMS-SG entered the next phase of the *transformation process* in fiscal year 2023. In this context, the FMS-WM Group faces the challenge of driving forward the portfolio wind-up and the further development of the operating model while at the same time maintaining high-quality, stable processes. In this transformation process, employees receive active support involving the entire organisation. This includes a clear strategy and set of objectives on the part of the Executive Board as well as open communication with employees with a view to overcoming resistance and creating acceptance of change. The transformation is to be given increasing consideration in processes and decisions. Challenges such as the progressive reduction in headcount are also addressed and integrated into the transformation. Individual development paths are crucial if employees are to take responsibility and identify with the FMS-WM Group.

In order to connect the levels of the organisation with that of the individual employee, the units conducted a series of strategy workshops in fiscal year 2023 with the involvement of management. Through these formats, FMS-WM and FMS-SG open up the opportunity for employees to actively participate in further developing the FMS-WM Group's operating model.

Flexibility in actions and reactions is standard operating procedure

The process is accompanied by an internal transformation team to enable the organisation to adapt to the gradual, increasingly rapid and fundamental changes and challenges in all phases of the transformation. This team is the service provider for employees and helps to establish new routines and adapt mindsets, ways of working and decision-making to the ever greater steps in the process of change.

The success factors used to measure the progress of the transformation process were reevaluated again in 2023. The result shows that FMS-WM and FMS-SG employees are aware of the need for the transformation and realise that they can make their own, individual contribution to the process. On a particularly positive note, FMS-WM Group employees attest to a high degree of self-organisation and interaction across units has continued to increase.

For FMS-WM, a conflict arises between employee retention and headcount reduction. Any uncertainties that emerge could have a negative impact on operational stability. It is therefore key to find a balance between these two challenges.

To rise to these challenges, FMS-WM fosters the individual skills and experience of its employees in specific areas. Continuous feedback, needs-based continuing professional development and knowledge transfer are essential. Measures such as job rotation and cross-departmental and cross-division project work play an important role in passing on and securing existing know-how. FMS-WM invests in its employees' personal development and offers support for a possible follow-on position, also drawing on external careers and prospects advice. A supportive severance management process plays a key role not only in facilitating a respectful departure for the employees concerned, but also in having a positive impact overall on the corporate culture and positioning the Group as a responsible employer.

FMS-WM meets the increased expectations of employers in the modern world of work through a hybrid office model and thus enables office working and mobile working to be efficiently combined. FMS-WM employees are generally free to decide on which and on how many days they wish to use mobile working; this is based on unit and team self-organisation. At FMS-WM, it is also possible to work up to 20 working days a calendar year from different European countries. For FMS-WM, this makes a significant contribution to work-life balance and to increasing employee loyalty. These measures meet both operational and employee requirements.

FMS-WM's attractiveness as an employer with a finite, yet unique and meaningful task and demanding and challenging assignments is attested to on a regular basis. In 2023, FMS-WM was once again named a top employer by employer rating platform kununu.

Time and time again, former employees also confirm what distinguishes FMS-WM from their external perspective. They say, for example, that problem-solving always starts with the question of what the actual challenge is. In addition, space is deliberately given to a variety of perspectives, as this leads to sustainable solutions.

"At the FMS-WM Group, the focus is on asking the right questions"

(former employee)

By integrating collaboration and the principles of modern working relationships into day-to-day working life of the FMS-WM Group, it remains competitive in comparison with other employers. A low rate of employee turnover underscores its success and enables stable and successful business operations.

Outlook

In fiscal year 2023, FMS-WM implemented further measures aimed at achieving its medium-term objectives. This is intended to ensure high-quality, operationally stable, cost-effective and efficient portfolio management and create more scope to transfer portfolio management to third parties insofar as this is economically worthwhile.

In fiscal year 2024, FMS-WM will once again work on actively reducing complexity and risks as part of its efforts to unwind the portfolio as profitably as possible. Depending on the market environment, it expects to reduce the portfolio by a further nominal amount of around EUR 4 billion to EUR 6 billion.

Flexible employees remain the success factor and, with them, the FMS-WM Group will continue to best fulfil the wind-up task in fiscal year 2024.

At the same time, the organisational and cost structure will be continuously simplified and optimised. In the course of implementing the medium-term objectives, FMS-WM has been working together with FMS-SG since the second half of 2023 to evaluate the strategic options available to a future organisational and operational structure. In the process, various possible models of collaboration in the form of outsourcing arrangements and optimised in-house management are undergoing structured analysis and, if economically advantageous, are being underpinned with more detailed measures that will be implemented over the coming years.

If the interest rates observed in currencies relevant to FMS-WM at the start of 2024 do not fall considerably, net interest income in fiscal year 2024 is expected to remain at the same level as fiscal year 2023. In 2024, FMS-WM expects administrative expenses, which have been declining in recent years, to be in line with the 2023 figure despite inflation in the procurement markets of importance to FMS-WM.

Subject to further geopolitical developments, particularly in connection with the wars in Ukraine and the Middle East, the related effects and other unforeseeable events, FMS-WM expects to at least break even in its ordinary activities in fiscal year 2024, as it anticipates that the positive balance of the current result less administrative expenses will be at least equal to any negative balance of risk provisions and net income from investments, items influenced by valuation measures and proceeds of sales.

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MANAGEMENT REPORT

FUNDAMENTAL INFORMATION ABOUT FMS WERTMANAGEMENT

BUSINESS AND OPERATING CONDITIONS

Upon application by Hypo Real Estate Holding AG, Munich (HRE), the Federal Agency for Financial Market Stabilisation, Frankfurt am Main (Bundesanstalt für Finanzmarktstabilisierung – FMSA), established FMS Wertmanagement AöR, Munich (FMS-WM), on 8 July 2010 in accordance with Section 8a of the German Financial Market Stabilisation Fund Act (Finanzmarktstabilisierungsfondsgesetz – FMStFG [1]). 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. It is regulated and supervised by FMSA and the Federal Financial Supervisory Authority, Bonn and Frankfurt am Main (BaFin). The Financial Market Stabilisation Fund (FMS) as the owner is obligated by law and the Charter of FMS-WM to compensate the latter's losses. The administration of the FMS created in 2008 by the FMSA was transferred to Bundesrepublik Deutschland – Finanzagentur GmbH (German Finance Agency), Frankfurt am Main, on 1 January 2018. FMS-WM is not deemed a credit or financial services institution as defined in the German Banking Act (Kreditwesengesetz), a securities firm as defined in the German Securities Trading Act (Wertpapierhandelsgesetz) or an insurance company as defined in the German Insurance Supervision Act (Versicherungsaufsichtsgesetz), nor does it engage in any transactions requiring a licence pursuant to Directive 2013/36/EU of the European Parliament and of the Council dated 26 June 2013 relating to the taking up and pursuit of the business of credit institutions (OJ EC L 177 dated 30 June 2006, p. 1) or Directive 2014/65/EU of the European Parliament and of the Council dated 15 May 2014 on markets in financial instruments, amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC (OJ EC L 145 dated 30 April 2004, p. 1.).

Under agreements dated 29 and 30 September 2010, risk positions and non-strategic operations of HRE Group [2] companies with a nominal value of EUR 175.7 billion (excluding derivatives) were transferred to FMS-WM effective 1 October 2010. To this end, FMSA – acting as necessary for the FMS –, HRE, Deutsche Pfandbriefbank AG, Munich (pbb), DEPFA BANK plc, Dublin (DEPFA BANK plc) and other HRE Group companies – and FMS-WM entered into a number of agreements pursuant to which certain risk positions and non-strategic operations of HRE Group companies were transferred to FMS-WM in accordance with Section 8a FMStFG.

[1] *The name of the law and its abbreviated version were changed to "Law Establishing a Financial Market Fund and an Economy Stabilisation Fund" (Gesetz zur Errichtung eines Finanzmarkt- und eines Wirtschaftsstabilisierungsfonds – Stabilisierungsfondsgesetz – StFG) effective 28 March 2020*

[2] *HRE Group: HRE and its direct and indirect, domestic and foreign subsidiaries and special purpose entities*

Until FMS-WM is liquidated, the FMS has the obligation under Article 7 (1) of the Charter of FMS-WM (i) to pay, on first demand by the Executive Board of FMS-WM, all amounts required in the Executive Board's due assessment for ensuring that the winding-up institution can pay all its liabilities at any time on time and in full and (ii) to cover all losses of FMS-WM. Losses in this sense comprise all amounts that are payable to FMS-WM so that it can discharge its liabilities – as set out above – and that need not be repaid to the FMS under the conditions set out in Article 7 (2) of the Charter.

In 2012, FMS-WM established its own service entity called FMS Wertmanagement Service GmbH, Unterschleißheim (FMS-SG), which assumed responsibility for portfolio servicing and the supply of all associated services effective 1 October 2013. The scope of the services rendered by FMS-SG for FMS-WM was expanded to include accounting services effective 1 April 2015 and regulatory reporting activities effective 1 April 2016.

FMS-WM retains final decision-making powers and ultimate responsibility for the risk positions 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 positions by FMS-SG.

FMS-SG operated from two sites in fiscal year 2023 (Unterschleißheim and Dublin). Operations in New York site were discontinued at the end of 2022 and activities were transferred to the remaining FMS-SG sites. The New York office was completely closed in July 2023.

The following companies were contracted for performing the necessary IT services: Fujitsu Technology Solutions GmbH, Munich (Fujitsu Technology), IBM Deutschland GmbH, Ehningen (IBM Deutschland) and CGI Deutschland B.V. & Co. KG, Leinfelden-Echterdingen (CGI Deutschland).

Mandate and strategic objective

FMS-WM was founded with the aim of profitably winding up the risk positions acquired, while ensuring solvency at all times. The current climate and the exposures in FMS-WM's portfolio led FMS-WM to make adjustments to its business strategy in fiscal year 2023 – also to be prepared for future challenges. FMS-WM's mandate and the strategic objectives based on this are defined as follows:

> *The risk positions acquired will be profitably wound up and realised, and managed in an adequate, high-quality, operationally stable and efficient manner in terms of risk and complexity.*

The measures and objectives FMS-WM is implementing relating to the unwinding and servicing of the portfolio, optimisation of funding and further development of the operating model are tied in closely with fulfilment of the mandate.

The operating model is being refined so as to ensure high-quality, operationally stable and efficient servicing of the portfolio in the medium term with a less complex, lower-risk portfolio. In doing so, consideration is also being given to options to transfer some parts of exposure management to third parties insofar as this is economically worthwhile.

FMS-WM has defined wind-up and risk strategies that are adjusted on a continuous basis and set out in detail the procedure for fulfilling the mandate. The strategies serve as the basis for profitable unwinding and realisation of the risk positions. The wind-up plan – which must be deemed the key strategic management tool of FMS-WM – serves as the basis for the operational implementation of these strategies.

FMS-WM believes that efficient management of the exposures acquired also extends to responsible management of the costs that arise (cost-effective management). The wind-up and realisation as well as exposure management is carried out by FMS-WM itself and by service providers on the basis of service level agreements. However, sole responsibility for these activities rests with FMS-WM alone.

Ensuring cost-effective funding is essential for efficient exposure management. This funding is achieved through the loss compensation obligation of the FMS contained in the Charter and the explicit direct guarantee from the FMS that has been in place since 1 January 2014. Furthermore, FMS-WM can obtain longer-term funding through the FMS and can also raise funds on both the money market and the capital market.

In accordance with its Charter, to fulfil its mandate FMS-WM may engage in certain kinds of banking and financial services transactions, and operate other kinds of businesses which serve, directly or indirectly, to unwind the portfolio and realise the risk positions.

FMS-WM is not permitted to engage in new business activities. Funding and hedging transactions in the context of funding and market risk management, as well as select new business aimed at reducing risks arising from existing commitments in a cost-efficient manner or making them more manageable (required extensions as well as select restructuring measures), are exceptions to the above rule.

Domicile and branch

FMS-WM is domiciled in Munich. FMS-WM maintains a branch in Rome, Italy. This branch winds up Italian assets with the public sector and infrastructure financing and employs two other employees in addition to the branch manager seconded from Munich.

ORGANISATIONAL STRUCTURE

The governing bodies of FMS-WM pursuant to its Charter are the Supervisory Board and the Executive Board.

As at 31 December 2023, the Supervisory Board had seven members. The members of the Supervisory Board are delegated by the German Finance Agency, which acts on behalf of the FMS. It is tasked with advising the Executive Board of FMS-WM and monitoring its management activities. It is also responsible for:

- decisions pertaining to the wind-up plan and deviations therefrom,
- the resolution on the annual wind-up report,
- appointing and dismissing the members of the Executive Board,
- issuing the Rules of Procedure for the Executive Board,
- approving the annual financial statements and appointing the auditor,
- appropriation of net retained profits, and
- approving the final accounts.

Furthermore in matters of particular significance under the Executive Board's purview, the Supervisory Board may reserve decision-making authority for itself on a case-by-case basis or in general. This shall not affect the authority of the Executive Board to represent FMS-WM externally to legal effect. The Supervisory Board has established two committees from among its members:

- The Risk Committee acts as the Supervisory Board's central information and decision-making body for the FMS-WM risk strategy, making decisions as part of portfolio management activities and implementing the wind-up plan.
- The Audit Committee is specifically concerned with discussing the audit reports and making preparations for the Supervisory Board's decisions to adopt the annual financial statements; it is also responsible for appointing and monitoring the auditor of the financial statements.

The Executive Board manages the business of FMS-WM and represents it both in and out of court. As at 31 December 2023, the Executive Board comprised Christoph Müller (Spokesman of the Executive Board) and Carola Falkner. The Executive Board is appointed by the Supervisory Board with FMSA's approval for terms of no more than four years; it may be reappointed however.

Christoph Müller heads the CEO (Chief Executive Officer) division. The division is responsible for external and internal accounting, the resultant reporting, and independent monitoring and reporting of risks of FMS-WM. It is also responsible for developing the wind-up strategy and preparing wind-up plans. The division also handles the operations of FMS-WM and is responsible for the IT architecture, all procurement procedures and service provider management. Furthermore, the division is in charge of human resources, internal and external communications and the supervision of the committees.

Carola Falkner heads the Asset Management & Treasury division. The division is responsible for liquidity management, asset/liability management, support for the derivatives portfolio and the lending and securities operations of FMS-WM. It also bears responsibility for all legal issues and reviewing adherence to compliance-related requirements and performs the Group-wide internal audit function, which supports the Executive Board in its monitoring role.

There were no material changes to the organisational structure of FMS-WM in fiscal year 2023.

INTERNAL MANAGEMENT SYSTEM AND FINANCIAL PERFORMANCE INDICATORS

The internal management system of FMS-WM is derived directly from its mandate and forms the basis for the financial performance indicators. The internal management system can be divided as follows:

Profitable unwinding and realisation of the risk positions

The risk positions transferred from HRE Group companies consisted of loan receivables, securities, derivative financial instruments, rights and obligations under loan commitments, guarantees and equity investments, along with the respective collateral. In fiscal years 2016 to 2020, these were extended by taking over risk positions of DEPFA Group[3] companies with a nominal volume of EUR 11.8 billion[4] (referred to as "portfolio extensions"). The loan receivables, securities, loan commitments and guarantees taken over from the HRE Group or as part of portfolio extensions are hereinafter referred to as the "portfolio".

FMS-WM's wind-up strategy is based on a basic allocation of the portfolio into actively managed and more passively managed sub-portfolios (including the related hedging instruments). Assets are assigned to the sub-portfolios using defined criteria approved by the Supervisory Board. Such assignments are reviewed regularly and adjusted as necessary. One particular focus of active management is accelerated redemption or the sale of positions, with both steps being taken if necessary after carrying out any restructuring. Efficiency, including monitoring to identify risk or selling signals, is the focus for the more passively managed sub-portfolios.

[3] *DEPFA Group: DEPFA BANK plc and its direct subsidiaries*
[4] *As of each respective acquisition date: November 2016: EUR 5.2 billion, November 2017: EUR 2.0 billion, November 2018: EUR 0.5 billion, June 2019: EUR 1.6 billion, November 2019: EUR 1.0 billion, December 2019: EUR 1.4 billion, December 2020: EUR 0.1 billion*

To implement the wind-up strategy, the wind-up plan provides for three approaches:

- As defined by FMS-WM, the "hold" approach entails actively managing risk positions with the aim of full repayment of all amounts outstanding (loans and securities) or reaching maturity (e.g. guarantees, irrevocable loan commitments and credit derivatives). A large portion of the risk positions are unwound by holding and managing them until maturity.
- FMS-WM defines the "sell" approach as entailing the sale of individual assets or sub-portfolios where economically feasible, for example to reduce both risks and the complexity of the portfolio, and if the market offers opportunities.
- Activities serving to adjust and optimise the contractual framework of loans and securities, where economically necessary, as well as activities serving to restructure and unwind non-performing risk exposures, are integral to the "restructuring" approach.

When making decisions for individual or portfolio sales and restructuring of risk exposures, the control logic implemented helps to ensure consistent and transparent consideration and documentation of the decision-making criteria identified. The control logic framework does not provide an algorithm for generating decisions automatically. The decision-making process involves comparing and contrasting quantifiable decision-making parameters, analysing qualitative assessments and making case-by-case decisions or decisions regarding sub-portfolios based on FMS-WM's regulation governing the decision-making process.

The FMS-WM management system is based on the wind-up plan, which is adopted annually by the Executive Board based on a proposal of the Supervisory Board and approved by the FMSA. The key elements of the wind-up plan are the forecasts of earnings contributions of the portfolio expected in the future based on the wind-up strategy (including the estimate of expected losses), the funding plan and administrative cost budgeting.

The reporting system is managed and presented based on the portfolio segments:

- Infrastructure
- Public Sector
- Structured Products

Actual results are reconciled with wind-up plan forecasts as part of this reporting.

The measures to unwind the portfolio are continually monitored by the Planning & Reporting department. The Executive Board, the Supervisory Board's Risk Committee and the FMSA are kept informed of current developments in the portfolio wind-up at segment level by way of a monthly wind-up report. The wind-up report contains information on the process of unwinding and realising the portfolio as well as on implementing the wind-up plan. The balance sheet and income statement are reconciled with forecasts on a quarterly basis. The results are reported to the Executive Board in the Risk / Asset Liability Committee (RALCO). Based on this reconciliation of budgeted and actual figures, the Executive Board determines in the RALCO whether there is a need to adjust the wind-up plan.

In its management of the profitable wind-up and realisation of risk positions, FMS-WM refers primarily to indicators that show the income from the wind-up. The central tool used for this purpose is the wind-up report. This income is a financial performance indicator for FMS-WM and is defined as the development of the portfolio adjusted for foreign currency effects. The development of the portfolio in fiscal year 2023 and its cumulative development since its transfer effective 1 October 2010 are presented in the chapter entitled *Course of business – Portfolio development*.

Cost-effective servicing and management

The cost-effective servicing and management of the transferred risk positions is derived directly from the mandate of FMS-WM. Controlling cost-effective servicing and management is based on budget planning and budget responsibility encompassing FMS-WM and FMS-SG. The key parameters for cost-effective management are administrative cost budgeting and development.

The Finance & Tax department monitors the development of costs and compliance with the budget requirements. The Executive Board and the Audit Committee of the Supervisory Board are regularly informed of the development of costs and deviations from budget targets as part of the cost reporting process. The cost reporting process is based on the expenses recognised in the income statement in the items General and administrative expenses, and Write-downs of and valuation allowances on intangible and tangible fixed assets. Significant items within general and administrative expenses include the development of personnel expenses, IT costs and expenses for servicing outsourced services by FMS-SG. The general and administrative expenses represent a material key financial performance indicator for FMS-WM and are presented in the chapter entitled *Asset position, financial position and results of operations of FMS Wertmanagement – Results of operations*.

FMS-WM controls and monitors outsourced activities using a standardised service provider management process carried out by the individual departments. This includes both the activities outsourced to FMS-SG and activities outsourced to other service providers. The Servicer Steering & IT Planning department informs the Executive Board once every quarter of all material outsourcing and of the contractually defined service quality as stated in the service level agreements.

Cost-effective funding

FMS-WM ensures cost-effective funding in order to carry out its mandate. In determining funding requirements, the cash portion of total assets and their scheduled maturities form the basis of the annual funding plan. This also takes into account the expected provision of cash collateral for financial derivatives during the planning period. In accordance with the funding strategy planning, the future funding requirement resulting from this is met by borrowing via the FMS and raising funds on the money market and, to a lesser extent, the capital market.

Since the start of 2019, the FMS has been providing FMS-WM with long-term funding in EUR, which is used both for funding in EUR and, in conjunction with foreign exchange derivatives, for funding in selected foreign currencies. FMS-WM takes care of short-term money market funding itself.

The scope of funds raised through the FMS represents a financial performance indicator which FMS-WM uses to measure cost-effective funding. No capital market instruments were issued in fiscal year 2023. Although it remains possible to raise funds through the capital market going forward, there are no plans to do so at the present time. Starting from fiscal year 2023, borrowing on the capital market will therefore no longer be defined as a financial performance indicator.

The development of funding activities, especially raising funds via the FMS, is outlined in the chapter entitled *Asset position, financial position and results of operations of FMS Wertmanagement – Financial position*.

In addition to the financial performance indicators, FMS-WM has defined a non-financial performance indicator “Trend in employee numbers”. For the presentation of this non-financial performance indicator, please refer to the *Employees* section.

REPORT ON ECONOMIC POSITION

MACROECONOMIC AND PORTFOLIO-SPECIFIC DEVELOPMENTS

Macroeconomic environment

The repercussions of the ongoing Ukraine conflict and other factors have made the recovery from the COVID-19 pandemic slow and uneven. While the interest rate hikes instigated by the euro zone, UK and US central banks have tamed inflation in these economic areas, so far it has proved impossible to bring inflation down to the target level of 2% p.a. and thus achieve a sustained easing of inflationary pressures.

The table on the right shows selected macroeconomic indicators in the economies material to FMS-WM – the euro zone (particularly Germany and Italy), the United Kingdom and the USA. Economic growth in the euro zone and the UK lost significant momentum in 2023. In fact, the USA was the only country whose economy grew faster than in the previous year, at 2.9%, but then inflation had not impacted the USA as severely in 2022 as it had the euro zone and the UK. In contrast, the labour markets in all economic areas remained stable year-on-year. The combination of persistently high inflation (compared to a target inflation rate of 2% p.a.) and continual key rate increases in 2023 put a damper on growth. In the USA and the euro zone, inflation fell comparatively sharply as the year went on, dropping to 3.7% p.a. and 4.3% p.a. respectively, while UK inflation remained high at 6.7% p.a.

Having raised interest rates significantly in the previous year, the central banks maintained this policy in 2023 with further key rate increases.

Economic growth in % (annualised as at 30.09.)	2023	2022
Euro zone	0.0	2.3
Including Germany	–0.4	1.4
Including Italy	0.1	2.6
United Kingdom	0.3	1.9
USA	2.9	1.9

Unemployement rate in % (as at 30.09.)	2023	2022
Euro zone	6.5	6.7
Including Germany	5.7	5.5
Including Italy	7.6	8.0
United Kingdom (as at 30.06.)	4.0	3.6
USA	3.7	3.6

Inflation in % (annualised as at 30.09.)	2023	2022
Euro zone	4.3	9.9
Including Germany	4.5	10.0
Including Italy	5.6	9.4
United Kingdom	6.7	10.1
USA	3.7	8.2

Infrastructure

Despite the protracted war in Ukraine and central banks' continuing rate hikes, especially in the first three quarters of 2023, the global infrastructure market showed itself to be stable.

While global infrastructure financing volumes were up slightly on the prior year at USD 1,679 billion, the number of completed transactions was significantly higher. The proportion of project funding in the overall funding volume rose to USD 669 billion in the reporting period. Commercial lending in 2023 amounted to USD 595 billion. There was a sharp increase in funding for infrastructure projects via bonds at USD 511 billion, marking a return to 2021 volumes.

With a funding volume of USD 644 billion in 2023, the North America region was once again the leader in terms of infrastructure financing, followed by Europe with a volume of USD 529 billion. Oil and gas funding accounted for the largest share at USD 340 billion, followed by renewables at USD 325 billion, conventional energy generation at USD 288 billion and telecommunications at USD 244 billion.

Public Sector

In 2023, the European Central Bank (ECB) and the Bank of England (BoE) continued with the monetary policy measures initiated in the previous year to limit and reduce inflation and raised key interest rates further. The European main refinancing rate, for example, was raised from 2.5% at the start of the year to 4.5% at the end of the year. The BoE raised its benchmark rate from 3.5% to 5.25% at year-end. The US Federal Reserve (Fed) upped its key rate from 4.5% to 5.5% in the same period. The higher interest rates exerted more pressure on bond prices on the markets. By contrast, risk premiums for bonds of Europe's peripheral countries remained stable or even decreased marginally. On ten-year Italian government bonds risk premiums fell significantly from 177 basis points at the beginning of the year to 168 basis points at year-end, whilst risk premiums on ten-year Spanish government bonds showed decreased from 110 basis points at the beginning of the year to 97 basis points at year-end.

Structured Products

US municipals

In 2023, the Fed significantly slowed the pace of its interest rate hikes compared with the previous year. Risk premiums for US municipals remained stable year-on-year, especially in the investment grade segment. Compared with the previous year, a slight widening of credit spreads could be observed, though only for bonds at the lower end of the investment grade spectrum and those with non-investment grade ratings. At USD 380 billion, the issuance volume fell short of the prior-year expectations of between USD 450 billion and USD 500 billion. The fundamental credit quality of US municipal bonds was stable in 2023 and the percentage of rating upgrades exceeded that of rating downgrades. The market for US municipals was characterised mainly by investment grade ratings and low probabilities of default.

The risk premiums of the borrowers relevant to FMS-WM in California and Illinois fell only slightly in 2023. Many pension systems remain underfunded, one example being that of the state of Illinois.

Asset-backed securities (ABS)

The volume of ABS placed in the USA clearly exceeded prior-year expectations at just under USD 260 billion. Risk premiums for variable-rate bonds from the US Federal Family Education Loan Program (FFELP) narrowed significantly across all maturities during the course of 2023. There have been no new issues for this programme for two years now.

COURSE OF BUSINESS

Business performance

FMS-WM's fiscal year 2023 was shaped primarily by the ongoing unwinding of transferred risk positions and of derivatives in the portfolio. FMS-WM scaled back its cash and cash equivalents during the fiscal year. Whereas at 31 December 2022 these had still consisted of the cash reserve of EUR 8.8 billion, at the reporting date of 31 December 2023 they comprised receivables from current bank accounts of EUR 1.1 billion and receivables from current securities repurchase agreements of EUR 1.5 billion. Own debt instruments bought back rose temporarily by EUR 4.0 billion to EUR 9.0 billion as at 31 December 2023. The increase is attributable to the buy-back of own debt instruments in fiscal year 2023 to replace the scheduled expiry of own debt instruments at the beginning of fiscal year 2024 in the amount of EUR 4.0 billion. Total assets were reduced further in the reporting period and amounted to EUR 88.4 billion at 31 December 2023.

FMS-WM posted a positive result from ordinary activities of EUR 96 million (previous year: EUR 77 million) for fiscal year 2023. Taking into account the tax expense of EUR 60 million (previous year: EUR 27 million), net income for the fiscal year amounts to EUR 36 million in total (previous year: EUR 50 million). Performance has therefore met the statement made in the outlook for the 2023 fiscal year, which expected FMS-WM to at least break even.

The contribution to earnings from net interest income (EUR 528 million; previous year: EUR 391 million) and net commission income (EUR –12 million; previous year: EUR –14 million) totalling EUR 516 million (previous year: EUR 377 million) is well in excess of general and administrative expenses of EUR 102 million (previous year: EUR 129 million). The positive change in net interest income is due in particular to the rise in general interest rate levels and improved funding terms. General and administrative expenses for the previous year had included one-off effects of EUR 15 million in connection with the IT transition completed in fiscal year 2022.

The balance of the items influenced by valuation and sales decisions (risk provisions and net income from investments) amounted to EUR –322 million in fiscal year 2023 (previous year: EUR –182 million). Risk provisions were mainly shaped by the allocation of EUR 250 million (previous year: EUR 0 million) to the fund for general banking risks in accordance with Section 340g HGB as well as by the measurement of loans from the portfolio. Net income from investments was dominated by the termination of derivatives in the amount of EUR 25 million, as well as by the measurement of bonds and derivatives from the portfolio.

In fiscal year 2023, FMS-WM's liquidity was above the liquidity threshold relevant for management purposes at all times. FMS-WM obtained funds of EUR 6.0 billion via the FMS in fiscal year 2023.

Portfolio development

The income from the wind-up (cumulative portfolio development based on nominal values) adjusted for foreign currency effects is one of the financial performance indicators of FMS-WM.

The following table shows the cumulative portfolio development from 1 October 2010 (the date of transfer) to 31 December 2023. The cumulative portfolio development also includes the additions resulting from portfolio extensions as well as the unwinding of the portfolio completed by the reporting date in relation to the portfolio extensions.

	Development of the portfolio Cumulative	in EUR billion
	Nominal portfolio as at 01.10.2010	175.7
–	Cumulative portfolio development	–133.0
	Of which: additions due to portfolio extensions (nominal)	*+11.8*
	Of which: portfolio wind-up	*–144.8*
+	Currency effects	+1.7
	Nominal portfolio as at 31.12.2023[1]	**44.4**

[1] *Translated at exchange rates as at 29 December 2023*

The following table shows the portfolio development in fiscal year 2023 and the reconciliation of the nominal volume of the portfolio to total assets as at 31 December 2023:

	Development of the portfolio 2023 fiscal year	in EUR billion
	Nominal portfolio as at 31.12.2022	49.6
–	Portfolio wind-up, fiscal year	–5.0
+	Currency effects	–0.2
	Nominal portfolio as at31.12.2023[1]	**44.4**
–	Undrawn credit lines and guarantees	–0.1
+	Portfolio of own issues, nominal	+9.0
+	Other receivables / receivable components / other	+35.1
	Total assets as at 31.12.2023	**88.4**

[1] *Translated at exchange rates as at 29 December 2023*

"Other receivables /receivable components /other" mainly contain cash collateral provided for financial derivatives, receivables from securities repurchase agreements, current credit balances, the amortised cost of derivatives taken over, and accrued interest.

Based on nominal values, the cumulative portfolio development since the 1 October 2010 transfer date was as follows as at 31 December 2023, taking the portfolio extensions into account:

Segment/nominal Cumulative	01.10.2010 in EUR billion	Portfolio development in EUR billion	Currency effects in EUR billion	Reclassification in EUR billion	31.12.2023 in EUR billion
Commercial Real Estate	27.2	–26.9	0.0	–0.3	–
Infrastructure	18.0	–10.0	–0.1	+0.3	8.2
Public Sector	86.6	–64.7	–0.1	–	21.8
Structured Products	43.9	–31.4	+1.9	–	14.4
Total	**175.7**	**–133.0**	**+1.7**	**–**	**44.4**

The Commercial Real Estate segment is no longer being managed as an active segment. The risk positions that originally belonged to this segment and were still in the portfolio at the end of 2021 were transferred to the Infrastructure segment with effect from 31 December 2021 and are shown under "Reclassification" in the table above.

Taking the portfolio wind-up and the additions from portfolio extensions into account, the portfolio decreased to EUR 44.4 billion as at 31 December 2023. Adjusted for countervailing currency effects, this corresponds to a reduction of EUR 133.0 billion since 1 October 2010. The reduction consists of the wind-up of the portfolio transferred in 2010 and the additions resulting from portfolio extensions, as well as their wind-up as at 31 December 2023. The reduction was brought about through scheduled and unscheduled redemptions as well as sales.

Based on nominal values, the development of the portfolio, broken down by segments, was as follows in fiscal year 2023:

Segment/nominal 2023 fiscal year	31.12.2022 in EUR billion	Portfolio wind-up in EUR billion	Currency effects in EUR billion	31.12.2023 in EUR billion
Infrastructure	8.4	–0.3	0.1	8.2
Public Sector	24.4	–2.7	0.1	21.8
Structured Products	16.8	–2.0	–0.4	14.4
Total	**49.6**	**–5.0**	**–0.2**	**44.4**

For fiscal year 2023, portfolio wind-up (before currency effects) was EUR 5.0 billion. The wind-up envisaged in the outlook for fiscal year 2023, with a nominal volume of EUR 4 billion to EUR 6 billion, was thus met.

EMPLOYEES

As at 31 December 2023, FMS-WM had 99 employees (31 December 2022: 95 employees). The target figure is adjusted regularly to reflect requirements; it currently stands at 100 employees. The trend in employee numbers and thus the balance between the target figure and the actual number of employees is a non-financial performance indicator for FMS-WM which is reviewed annually as part of the wind-up planning process and adjusted to current conditions during the year as necessary.

Winding up the portfolio is a complex task, one in which FMS-WM has committed itself to a high degree of professionalism. The Executive Board of FMS-WM firmly believes that motivated, highly qualified and loyal employees are essential to the success of the organisation.

FMS-WM is undergoing a transformation process that poses a large number of challenges. They require the Executive Board to define a clear strategy and objective, plus open communication with the workforce to overcome resistance and create acceptance of the transformation. FMS-WM has established an internal transformation team to actively support staff throughout this process so that the organisation can adapt to the successive, increasingly rapid and more radical changes and challenges during all phases of the transformation.

For FMS-WM, a conflict arises between employee retention and headcount reduction. Any uncertainty that arises may have a negative impact on employee retention. Finding a balance between these two challenges is crucial to maintaining operational stability and meeting quality standards.

To rise to these challenges, FMS-WM fosters the individual skills and experience of its employees in specific areas. Continuous feedback, needs-based continuing professional development and knowledge transfer are essential. Measures such as job rotation and cross-departmental and cross-division project work play an important role in passing on and securing existing know-how. FMS-WM invests in its employees' personal development and offers support for a possible follow-on position, also drawing on external careers and prospects advice. A supportive severance management process plays a key role not only in facilitating a respectful departure for the employees concerned, but also in having a positive impact overall on the corporate culture and positioning the Group as a responsible employer.

Measures to promote physical and mental health and flexible working models help to increase employee satisfaction. Based on unit and department self-organisation, mobile working at FMS-WM is underpinned by the office model introduced in October 2022 and the creation of hybrid meeting rooms, for example. FMS-WM also allows staff to work from different European countries for up to 20 working days in a given calendar year.

These measures serve to increase long-term employee loyalty and reinforce FMS-WM's attractiveness as an employer both internally and externally. FMS-WM was once again named a top employer by employer rating platform kununu. A low rate of employee turnover also underscores its success and enables stable and successful business operations.

ASSET POSITION, FINANCIAL POSITION AND RESULTS OF OPERATIONS OF FMS WERTMANAGEMENT

Asset position

The key factors shaping the asset position in fiscal year 2023 were the unwinding of risk positions from the portfolio and derivatives as well as the decrease in cash and cash equivalents. The temporary increase in own debt instruments bought back had an offsetting effect.

Taking contingent liabilities and other obligations into account, FMS-WM posted a business volume of EUR 88.7 billion as at 31 December 2023 (31 December 2022: EUR 99.2 billion). The enumeration below provides an overview of the amount and composition of the business volume of FMS-WM as at 31 December 2023:

Assets	31.12.2023 in EUR million	31.12.2022 in EUR million
Cash reserve	0	8,761
Loans and advances to banks	21,363	17,969
Loans and advances to customers	11,828	14,636
Debt instruments	52,070	52,005
Other long-term equity investments	0	0
Shares in affiliated companies	10	30
Intangible and tangible fixed assets	0	0
Other assets	530	1,030
Prepaid expenses	2,571	4,533
Total assets	**88,372**	**98,964**

Equity and liabilities	31.12.2023 in EUR million	31.12.2022 in EUR million
Liabilities to banks	1,667	1,644
Liabilities to customers	58,037	60,952
Securitised liabilities	17,558	23,338
Other liabilities	296	307
Deferred income	8,486	10,642
Provisions	174	213
Fund for general banking risks in accordance with Sec. 340g HGB	250	0
Equity	1,904	1,868
Total equity and liabilities	**88,372**	**98,964**
Contingent liabilities	235	239
Other obligations	52	46
Business volume	**88,659**	**99,249**

The year-on-year decline in the business volume as at 31 December 2023 is mainly attributable to the unwinding of the portfolio with a nominal volume of EUR 5.0 billion (including loans and advances to customers of EUR 1.6 billion and debt instruments of EUR 3.4 billion), as well as to the unwinding of derivatives (EUR 1.2 billion in prepaid expenses). The cash and cash equivalents held as at 31 December 2022, consisting of the cash reserve, were reduced in the course of fiscal year 2023 and now consist of receivables from current bank accounts (EUR 1.1 billion under loans and advances to banks) and receivables from securities repurchase transactions (EUR 1.5 billion under loans and advances to banks) at the reporting date of 31 December 2023. The temporary increase to EUR 9.0 billion in own debt instruments bought back (31 December 2022: EUR 5.0 billion), reported under the Debt instruments item had an offsetting effect.

The description of the following balance sheet items includes any accrued interest.

Receivables

As at 31 December 2023, loans and advances to banks mainly included loans and advances payable on demand in the amount of EUR 18.3 billion (31 December 2022: EUR 15.9 billion). EUR 1.4 billion of the increase is attributable to receivables from cash collateral provided for financial derivatives, especially due to the trend in the interest rate curve in the relevant currencies (EUR and GBP) and the expectations of inflation in the UK. Receivables trom current bank accounts contribute EUR 1.0 billion to the increase. In addition, loans and advances to banks include receivables from securities repurchase transactions in the amount of EUR 1.5 billion (31 December 2022: EUR 0.0 billion).

As at 31 December 2023, loans and advances to customers included cash collateral provided for financial derivatives of EUR 5.4 billion as a result of derivatives clearing with the Federal Republic of Germany, represented by the German Finance Agency (31 December 2022: EUR 6.8 billion). The decline in the reporting period is due to the lower funding volume and the trend in the EUR interest rate curve. The portfolio wind-up by a nominal volume of EUR 1.6 billion had the effect of reducing loans and advances to customers.

Holdings of securities

Holdings of securities as at 31 December 2023 amounted to EUR 52.1 billion (31 December 2022: EUR 52.0 billion). The own debt instruments bought back in the amount of EUR 9.0 billion (31 December 2022: EUR 5.0 billion) are allocated to the liquidity reserve. The remaining securities relate solely to marketable debt instruments and other fixed-income securities and are part of fixed assets. The securities are largely hedged against interest rate and currency risks by means of derivatives.

The portfolio wind-up by a nominal volume of EUR 3.4 billion and currency effects of EUR –0.2 billion (in terms of the nominal volume of the portfolio) had the effect of reducing securities holdings.

Shares in affiliated companies and other long-term equity investments

Shares in affiliated companies and other long-term equity investments amounted to EUR 10 million at 31 December 2023 (31 December 2022: EUR 30 million) and relate almost exclusively to shares in FMS-SG. FMS-SG implemented a capital reduction of EUR 20 million in fiscal year 2023.

Liabilities

FMS-WM recognised liabilities to banks of EUR 1.7 billion as at 31 December 2023 (31 December 2022: EUR 1.6 billion). This includes accrued interest for derivatives in the amount of EUR 1.3 billion (31 December 2022: EUR 1.3 billion).

Liabilities to customers totalling EUR 58.0 billion (31 December 2022: EUR 61.0 billion) mainly included funding provided via the FMS in the amount of EUR 55.5 billion (31 December 2022: EUR 59.4 billion).

At 31 December 2023, securitised liabilities amounted to EUR 17.6 billion (31 December 2022: EUR 23.3 billion) and contain debt instruments issued by FMS-WM in the amount of EUR 12.9 billion (31 December 2022: EUR 14.4 billion). This item also includes commercial paper resulting from the US Commercial Paper Programme (USCP Programme) in the amount of EUR 2.7 billion (31 December 2022: EUR 0.5 billion) as well as the European Commercial Paper / Certificates of Deposit Programme (ECP / CP Programme) in the amount of EUR 2.0 billion (31 December 2022: EUR 8.4 billion).

Prepaid expenses and deferred income

Prepaid expenses in the total amount of EUR 2.6 billion (31 December 2022: EUR 4.5 billion) include unamortised payments made for derivatives in the amount of EUR 1.6 billion (31 December 2022: EUR 3.4 billion). These mainly include the unamortised payments that FMS-WM made for acquired interest rate hedging derivatives as part of its funding activities and the wind-up mandate as well as the transfer of the portfolio as at 1 October 2010. Of the decline in unamortised payments made for derivatives in the fiscal year, EUR 1.2 billion is attributable to the termination of derivatives as part of the wind-up mandate.

Another component of prepaid expenses are those from the lending business in the amount of EUR 0.9 billion (31 December 2022: EUR 1.1 billion), consisting predominantly of payments made by FMS-WM as at 1 October 2010 for hedge adjustments of the hedged items (receivables) taken over from companies of the HRE Group. Furthermore, prepaid expenses were recognised for payments made in acquiring risk positions (receivables) in the course of the portfolio extensions to the extent these exceed the nominal value of the acquired receivables.

Deferred income totalling EUR 8.5 billion (31 December 2022: EUR 10.6 billion) mainly consists of EUR 7.7 billion (31 December 2022: EUR 9.6 billion) of unamortised payments received for derivatives acquired. These derivatives were mostly acquired as at 1 October 2010 from companies of the HRE Group and to a lesser extent in connection with the wind-up mandate. Of the decline in unamortised payments received for derivatives in the fiscal year, EUR 1.1 billion is attributable to the termination of derivatives as part of the wind-up mandate.

Deferred income also includes deferred payments received in connection with lending and funding operations totalling EUR 0.8 billion (31 December 2022: EUR 1.0 billion).

Equity

The equity of FMS-WM as at 31 December 2023 amounts to EUR 1,904 million (31 December 2022: EUR 1,868 million). HRE and pbb each made an equity contribution of EUR 1 million to FMS-WM in connection with the spin-off pursuant to Section 8a (1) and (8) FMStFG in conjunction with Sections 123 (2) No. 1 and 131 UmwG.

FMS-WM recognised net retained profits of EUR 36 million as at 31 December 2023 (31 December 2022: EUR 50 million). Net retained profits from fiscal year 2022 in the amount of EUR 50 million were transferred to retained earnings based on a resolution adopted on 27 March 2023. Retained earnings as at 31 December 2023 totalled EUR 1,866 million.

Below-the-line items on the balance sheet

As at 31 December 2023, contingent liabilities consisted predominantly of obligations from credit default swaps (CDS) where FMS-WM is the guarantor.

As at 31 December 2023, other obligations included a partially utilised liquidity facility and irrevocable loan commitments.

Financial position

Capital structure

Securitised liabilities totalling EUR 17.6 billion were recognised as at 31 December 2023 in connection with FMS-WM's own debt issues, the USCP Programme and the ECP / CD Programme (31 December 2022: EUR 23.3 billion). As at 31 December 2023, FMS-WM issued EUR 12.9 billion in own debt instruments (31 December 2022: EUR 14.4 billion); of this amount, EUR 9.0 billion (31 December 2022: EUR 5.0 billion) were bought back and are reported as an asset in the balance sheet under the Debt instruments item.

Financing measures

In the reporting year, FMS-WM met its targets for its funding and investor strategy. The overriding aim here is to ensure the solvency of FMS-WM at all times. This is achieved, in particular, by having the option to raise funds via the FMS. In addition, FMS-WM itself secures its own short-term funding via the money market.

Through the FMS, FMS-WM has access to a funding facility of EUR 60.0 billion, which can be used for longer-term borrowings. Through the FMS, FMS-WM participates in issues of federal securities by the German Finance Agency and receives funding in the form of loans. The terms applying to those loans are in line with the terms applying to the federal securities. This facility is used both for funding in EUR and, in conjunction with foreign exchange derivatives, for selected foreign currencies. Within this funding facility in fiscal year 2023, longer-term EUR-denominated funding of EUR 6.0 billion was raised as planned. As a result, this financial performance indicator met the EUR 6.0 billion volume of funds forecast for 2023 in the management report as at 31 December 2022.

Borrowings raised via the FMS in the fiscal year had an average remaining maturity of around 5.5 years as at 31 December 2023.

No funds were raised via the capital market in fiscal year 2023. The capital market funding in place as at 31 December 2023 (without taking into account own bonds) and the funds obtained via the FMS show the following maturity structure:

Maturities	31.12.2023 in EUR million	31.12.2022 in EUR million
Up to one year	13,230	15,430
More than one year and up to five years	23,633	28,918
More than five years	23,555	25,599
Total	**60,418**	**69,947**

The changes in the maturity structure are mainly the result of obtaining longer-term funding in euros through the FMS in the fiscal year and the decrease in the level of capital market funding.

If capital market funding or borrowings via the FMS are obtained at a fixed rate of interest, FMS-WM usually hedges the funding or borrowings by way of appropriate interest rate hedges as part of general interest rate management.

In the money market, the product range comprises the following instruments:

- ECP / CD Programme
- USCP Programme
- Securities repurchase agreements
- Deposits from institutional investors

The money market funding had an average remaining maturity of approximately 1.6 months as at 31 December 2023 and consisted mainly of EUR, GBP and USD. Money market funding can be obtained at both fixed and variable rates of interest.

FMS-WM also plans to keep the proportion of long-term funding (through the FMS and on the capital market) in its overall funding volume at a high level at all times (as at 31 December 2023: approx. 93%). The EUR borrowings via the FMS are partially transformed into other currencies and are used, in particular, to cover the funding requirement in GBP.

Liquidity

FMS-WM had sufficient liquidity at all times, and in future will continue to have the option to borrow via the FMS and retain access to money and capital markets, allowing maturing funding to be replaced by new borrowings at any time, where this cannot be repaid by inflows of funds from the wind-up of the portfolio.

Off-balance sheet obligations

Some of the outsourced services (inter alia FMS-SG, Fujitsu Technology, IBM Deutschland and CGI Deutschland) are subject to long-term agreements, giving rise to other financial obligations on the part of FMS-WM. These agreements have fixed and variable performance components. An average annual contractual volume of around EUR 60 million is expected for fiscal years 2024 to 2026, of which an average of around 70% is attributable to FMS-SG.

In respect of further off-balance sheet obligations, see the chapters entitled *Contingent liabilities* and *Other obligations* in the notes to the annual financial statements as at 31 December 2023.

Results of operations

At EUR 414 million (previous year: EUR 251 million), the balance of current income and expenses (net interest and net commission income, and income from profit transfer, less general and administrative expenses) was clearly positive in fiscal year 2023. At EUR –322 million (previous year: EUR –182 million), the balance from the Risk provisions and Net income from investments items influenced by valuation decisions and sales results was negative. Risk provisions in the reporting year were made up of the allocation of EUR 250 million (previous year: EUR 0 million) to the fund for general banking risks in accordance with Section 340g HGB and were also shaped by the measurement of loans from the portfolio. Net income from investments was dominated by the termination of derivatives in the amount of EUR 25 million, as well as by the measurement of bonds and derivatives. In fiscal year 2023, there was a positive result of EUR 96 million (previous year: EUR 77 million) from ordinary activities (taking into account the balance of other operating income and expenses). Taking into account the tax expense of EUR 60 million (previous year: EUR 27 million), net income for the fiscal year amounts to EUR 36 million in total (previous year: EUR 50 million).

The following table provides an overview of the items of the income statement:

	01.01. – 31.12.2023 in EUR million	01.01. – 31.12.2022 in EUR million
Net interest income	528	391
Current income from shares in affiliated companies	0	0
Income from profit transfer	0	3
Net commission income	–12	–14
Other operating income / loss, net	4	8
General and administrative expenses	–102	–129
Depreciation and amortisation	0	0
Risk provisions	–409	–214
Net income from investments	87	32
Result from ordinary activities	**96**	**77**
Taxes (incl. other taxes)	–60	–27
Net income for the year	**36**	**50**
Retained profits / accumulated losses brought forward	0	0
Net retained profits	**36**	**50**

Net interest income

Net interest income for fiscal year 2023 amounts to EUR 528 million (previous year: EUR 391 million). The increase in net interest income is attributable both to the rise in interest rate levels and to the improved funding terms as a result of raising FMS funding. The terms of the funding available through the FMS are more advantageous and therefore more favourable for FMS-WM than the terms of funding available through the capital market. Even though FMS's average funding volume remained roughly the same, the average volume of capital market funding in fiscal year 2023 was much lower than in fiscal year 2022. The unwinding of the portfolio offset the positive effects of the increase in interest rates to some extent.

Income from profit transfer

In fiscal year 2023, FMS-WM collected the annual result of FMS-SG in the amount of EUR 0.1 million (previous year: EUR 3 million) due to the existing profit transfer agreement with FMS-SG.

Net commission income

Net commission income in the amount of EUR –12 million (previous year: EUR –14 million) primarily comprises income and expenses in connection with credit derivatives. The year-on-year improvement is mainly due to the scheduled expiry of a credit derivatives position (FMS-WM as the secured party) in the third quarter of 2023.

Other operating income / loss, net

Other operating income/loss, net of EUR 4 million (previous year: EUR 8 million) comprises prior-period income from the reversal of provisions amounting to EUR 4 million (previous year: EUR 1 million), income from the onward charging of services provided to FMS-SG of EUR 1 million (previous year: EUR 1 million), income from foreign currency translation of EUR 1 million (previous year: EUR 1 million) as well as portfolio-related costs and transaction costs of EUR 2 million (previous year: EUR 1 million).

General and administrative expenses / depreciation and amortisation of intangible and tangible fixed assets

General and administrative expenses amounted to EUR 102 million (previous year: EUR 129 million) and mainly result from expenses of EUR 68 million (previous year: EUR 100 million) incurred in the context of service outsourcing (portfolio servicing, administrative and back office activities, IT services and accounting services). In the previous year, general and administrative expenses had included one-off effects of EUR 15 million in connection with the IT transition initiated in fiscal year 2021 and completed in fiscal year 2022. After adjusting for these one-off effects, expenses in connection with outsourcing were once again significantly lower than in the previous year. This is mainly attributable to the decrease in expenses in connection with FMS-SG, due among other things to the cessation of operations at FMS-SG's New York branch at the end of 2022.

Personnel expenses for the staff of FMS-WM in fiscal year 2023 were EUR 18 million (previous year: EUR 16 million).

The development of general and administrative expenses serves as a financial performance indicator for FMS-WM with regard to cost-effective servicing and management. Both general and administrative expenses as a whole and the expenses contained therein for outsourced services were down on the previous year, even after adjustment for one-off effects in connection with the IT transition. This is mainly due to the decrease in expenses for activities outsourced to FMS-SG. This means that FMS-WM met the forecast made for fiscal year 2023 in the management report for fiscal year 2022 that, disregarding one-off effects in connection with the change of IT service providers, administrative costs would decline slightly as a result of the progressive unwinding of the portfolio.

Risk provisions and net income from investments

Net income from risk provisions in accordance with Section 340f (3) HGB and net income from investments in accordance with Section 340c (2) HGB amounted to EUR –322 million (previous year: EUR –182 million).

Net income from risk provisions was affected to a significant extent by the allocation of EUR 250 million (previous year: EUR 0 million) to the fund for general banking risks in accordance with Section 340g HGB as well as by the measurement of loans from the portfolio. Net income from investments was dominated by the termination of derivatives in the amount of EUR 25 million, as well as by the measurement of bonds and derivatives.

Overall appraisal

Overall, fiscal year 2023 was a successful one for FMS-WM. FMS-WM made further progress in unwinding the portfolio and the derivatives. On the back of the positive trend in net interest income resulting from the increase in interest rates in the markets with relevance for FMS-WM and the further reduction in general and administrative expenses, FMS-WM transferred EUR 250 million to the fund for general banking risks in accordance with Section 340g HGB in fiscal year 2023. Overall, FMS-WM generated a positive result from ordinary activities of EUR 96 million for fiscal year 2023.

For fiscal year 2023, portfolio wind-up (before foreign currency effects) was EUR 5.0 billion. The wind-up envisaged in the outlook for fiscal year 2023, with a nominal volume of EUR 4 billion to EUR 6 billion, was thus achieved.

Results of operations matched the statement made in the outlook for fiscal year 2023, which expected FMS-WM to at least break even. Current income from the portfolio was a significant EUR 414 million (previous year: EUR 251 million) higher than expenses from current operations. The increase is due, on the one hand, to the significant increase in net interest income (of EUR 137 million) and, on the other hand, to the decrease in general and administrative expenses. FMS-WM succeeded in further reducing general and administrative expenses to EUR 102 million (previous year: EUR 129 million), even after adjusting this item for one-off effects in connection with the IT transition in the previous year (EUR 15 million). In addition, risk provisions and net income from investments – both items influenced by valuation decisions and sales results – showed a negative balance of EUR –322 million in fiscal year 2023 (previous year: EUR –182 million). This balance was significantly impacted by the first-time allocation to the fund for general banking risks in accordance with Section 340g HGB, effects from the termination of derivatives and the measurement of risk positions in the portfolio. FMS-WM recognised net income of EUR 36 million for fiscal year 2023 (previous year: EUR 50 million).

FMS-WM had sufficient liquidity at all times in fiscal year 2023. FMS-WM obtained longer-term funding in euros of EUR 6.0 billion via the FMS. The target of borrowing EUR 6.0 billion via the FMS included in the outlook for the 2023 fiscal year thus was met.

Operating activities were conducted reliably and without any restrictions, both in mobile offices and on site, and the stability of business operations was ensured in fiscal year 2023. This is particularly true of control activities implemented within the scope of the internal control system, which was fully functional at all times and without any limitations.

In the context of service provider management, it was ensured that the key activities outsourced to external service providers were provided in full as contractually stipulated.

From a credit profile perspective, FMS-WM's portfolio was not affected by the wars in Ukraine and the Middle East in fiscal year 2023. FMS-WM did not hold any exposures with counterparties or have business relations with banks or companies from the affected countries during fiscal year 2023 or as at 31 December 2023. The credit quality of FMS-WM's portfolio was not materially affected by the continued increase in interest rates, the trend in inflation expectations or the financial and capital market volatility during the course of the fiscal year. No sustained negative effects on FMS-WM's portfolio are apparent at the present time. In fiscal year 2023, there were neither loan defaults nor cases of deferrals approved by FMS-WM. The ratings of FMS-WM's borrowers were monitored on a regular basis in fiscal year 2023 and where necessary adjusted in line with current circumstances and changes in conditions. As at 31 December 2023, FMS-WM does not expect any further increased default risk and believes that uncertainties have been given appropriate consideration in the existing rating models.

The funding and solvency of FMS-WM was ensured at all times throughout fiscal year 2023.

In summary, the Executive Board considers the asset position, financial position and results of operations of FMS-WM for fiscal year 2023 to be in order.

REPORT ON RISKS AND OPPORTUNITIES AND FORECAST REPORT

Risk report

The risk report has been prepared in accordance with the requirements of the Handelsgesetzbuch – HGB applicable to large corporations and the supplementary provisions applicable to banks.

The disclosures in the risk report take all risk positions into account, to the extent that FMS-WM has beneficial ownership of them and thus bears the value at risk. In addition, the risk report also shows exposures where the risks were not transferred directly for a variety of reasons but instead by means of guarantees for instance. These disclosures do not distinguish between on-balance sheet transactions (receivables, securities) and off-balance transactions (guarantees, loan commitments, derivatives). All risks are presented net of risk mitigation techniques.

BASICS OF RISK MANAGEMENT

Risk management is based on the wind-up plan and the risk strategy and is documented in the Risk Manual. The key risk management functions and instruments were further refined in fiscal year 2023. Aside from the sets of tools used to steer and monitor risk, this also includes reviewing and adjusting, as necessary, approaches to management, limit setting and reporting in respect of relevant adjustments of the German Minimum Requirements for Risk Management (MaRisk) and the special nature of FMS-WM, its business strategy and the risk strategy aligned with it.

The risk strategy takes into account the requirements of Section 25a (1) KWG, Article 2 (4) of the Charter and the relevant rules and regulations of MaRisk. Even though FMS-WM is not a bank or a financial services institution as defined in the German Banking Act, to the extent advisable, required or stipulated in the Charter it complies with the rules, regulations and standards because its operations establish commonalities with such institutions. Changes of the legal framework in the banking sector are reviewed for their relevance to FMS-WM and applied insofar as necessary.

The risk strategy defines the frameworks, principles and goals for FMS-WM's risk management on which all business decisions must be based. It provides the foundation for managing and controlling different types of risk.

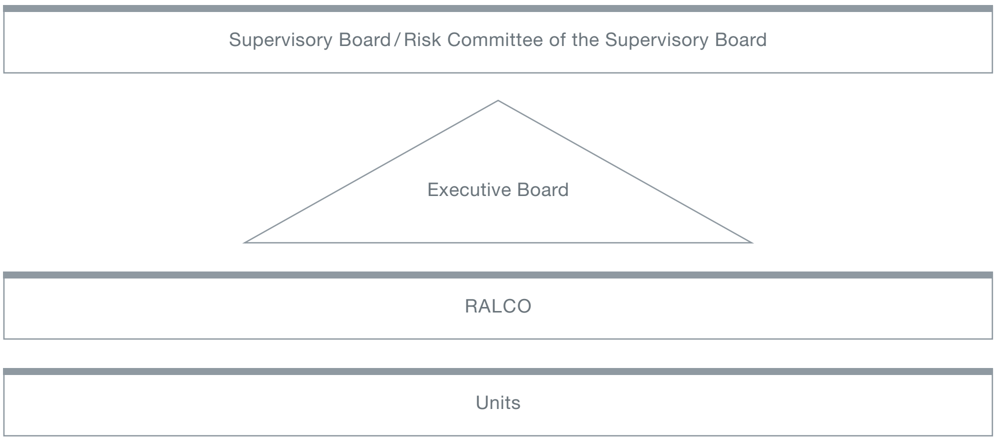
The current risk strategy is derived from the aims of FMS-WM as set out in its Charter and from the wind-up plan, which describes the business strategy and risk tolerance. Economic efficiency, operational feasibility of all risk steering activities and ensuring cost-effective funding constitute additional requirements for reducing risk. The risk strategy, including individual strategies for the five relevant risk categories of credit, market price, liquidity, operational and other risks, is outlined in established written policies and procedures.

Because the capital adequacy requirements pursuant to the German Banking Act do not apply to FMS-WM and FMS-WM is not obligated to prepare an internal capital adequacy assessment process and to manage its business based on economic capital pursuant to MaRisk standards, FMS-WM's reporting system has to meet fewer requirements than other financial institutions. Nevertheless, FMS-WM's approach to risk management is designed to avoid seeking recourse with the FMS under the latter's obligation to compensate losses.

The wind-up plan and the risk strategy – including the underlying assumptions – are reviewed on a regular basis (at least annually) and updated as necessary. Deviations from plan that are identified in the wind-up report also determine the need for updates.

ORGANISATIONAL STRUCTURE OF RISK MANAGEMENT

Responsibility for risk management rests with the Executive Board of FMS-WM, in particular the CEO. The chart below shows the organisational structure of risk management:



Supervisory Board / Risk Committee of the Supervisory Board

The Supervisory Board monitors the Executive Board within the meaning of the Charter of FMS-WM and has delegated risk-relevant topics to the Risk Committee of the Supervisory Board. As far as loan and portfolio management are concerned, the Risk Committee of the Supervisory Board serves as the latter's approval body tasked especially with making decisions on a case-by-case basis that are particularly relevant to risk, have major effects on FMS-WM's wind-up success or possess major strategic significance. It reviews and approves transactions and measures, strategies and targets related to individual exposures in connection with unwinding the portfolio and monitors relevant loan decisions. All members delegated for this purpose by the Supervisory Board are entitled to vote.

RALCO

The RALCO, which meets regularly and can be convened at short notice, has been established at FMS-WM to support and advise the Executive Board as well as to make certain decisions. The RALCO has the following tasks and responsibilities:

- As an operational credit decision-making body at management level of the FMS-WM, it makes individual credit decisions for all asset classes that fall within the RALCO's authority level. It is also tasked with making decisions on measures related to individual exposures and to propose transactions, strategies and objectives with regard to portfolio wind-up and to monitor relevant portfolio decisions.
- It acts as a strategic control and information body at Executive Board level, which prepares decisions with regard to adjustments to the wind-up plan, among other things.
- The RALCO also serves the Executive Board as the central information, monitoring and management body for strategic decisions on balance sheet structure, liquidity and market risk positions, funding and hedging strategies, limits and methodological guidelines for risk control and the management of all types of risk.

Units

The units listed below are mainly responsible for risk management at FMS-WM.

The Risk Controlling department within the Risk Controlling & Quantitative Analytics unit is responsible for carrying out all risk controlling activities in accordance with MaRisk for all risk types. This includes identification, analysis, assessment, monitoring and reporting of the risks. In addition, the Quantitative Analytics department reviews the adequacy of the models used to determine credit risk and model-based market price valuation. The Finance & Planning unit is responsible for updating FMS-WM's wind-up plan on an annual basis. The monthly wind-up report, which is the responsibility of the Planning & Reporting department, represents the centralised reporting system for all risk types.

Credit risk management is one of the main tasks performed by FMS-WM and the responsibility of the Asset Management unit. The main tasks of Asset Management entail monitoring borrower and issuer risks and making case-by-case and portfolio-based decisions on the portfolio's risk exposures. This is where the decisions of the RALCO whether to sell or restructure risk positions are prepared and carried out.

The Group Treasury unit is responsible for operational management of market risk, especially interest rate and foreign exchange risk, as well as the funding strategy and the associated tactical and strategic liquidity management. As the Center of Competence for derivatives, the unit also advises Asset Management and conducts derivative-specific analyses.

The IT, Sourcing & Operations unit comprises the following three departments with corresponding responsibilities:

- Servicer Steering & IT Planning: IT budget management, monitoring and managing the contractually compliant provision of outsourced IT services, establishing appropriate guidelines and processes, and monitoring the IT project portfolio, service provider management and management of outsourcing risks
- Sourcing & Corporate Services: Procurement management and corporate services
- Operations & Project Management: Managing IT risks, managing operational back-office processes and the associated risks, demand management, emergency management and occupational safety

Moreover, each individual department at FMS-WM must also manage the operational risks falling within their own specific scope of responsibility. For example, ensuring adequate rules of representation and carrying out measures to prevent losses are decentralised responsibilities.

In the reporting year, the Group Internal Audit unit performed risk-based and process-independent audits relating to the efficacy and adequacy of risk management at FMS-WM.

PROCESS ORGANISATION OF RISK MANAGEMENT

Risk management comprises the

- identification,
- analysis / assessment,
- steering and
- monitoring / reporting

of risks.

The material types of risk associated with FMS-WM's operating model are:

- Credit risks
- Market risks
- Liquidity risks
- Operational risks and
- Other risks

A regular risk inventory is conducted to identify and review risks classified as material. Due to the size and complexity of the portfolio transferred, credit risk in the form of borrower and issuer risk is the most important type of risk for FMS-WM. In addition, FMS-WM is subject to operational risk as a result of the extensive outsourcing of processes. Since the FMS is obliged to compensate any losses, none of the risk types constitute a going-concern risk for FMS-WM.

Risk management also entails limiting, monitoring and actively steering the following risks in particular: counterparty, market and liquidity risks. In addition to risk type-specific stress tests, cross-risk type stress scenarios are run and reported on quarterly. Borrower and issuer risks are monitored and managed as part of the wind-up strategies for specific wind-up clusters within the segments. Counterparty, market, liquidity, operational and other risks are managed at the portfolio level of FMS-WM.

ESG risks are environmental, social or governance-related events or conditions, the occurrence of which may have potentially negative effects on the net assets, financial position and results of operations of FMS-WM (external effects). In doing so, they may act as drivers of FMS-WM's primary risk types. In the course of the risk inventory conducted in the fiscal year, FMS-WM identified effects of ESG risks on business activities and performance and implemented suitable measures in the risk management process. The way in which ESG risks are handled both by regulators and lawmakers and by investors is currently evolving at an extremely dynamic pace, as a result of which it cannot be ruled out that processes and management mechanisms may need to be adjusted in future. FMS-WM endeavours to also give consideration to sustainability in its business activities. However, due to the prohibition on new business and its general intention to hold assets, there is limited room for manoeuvre within the business strategy for the portfolio.

FMS-WM is fully liable for managing and monitoring each individual risk type. FMS-WM has outsourced significant operating duties and activities to FMS-SG by way of a framework agreement. The scope of services provided is set out in detailed service level agreements.

Moreover, framework agreements were signed to outsource key areas of IT operations to Fujitsu Technology, IBM Deutschland and CGI Deutschland. Extensive service level agreements safeguard IT system functionality, also providing for future adaptation of the systems to the special needs of FMS-WM by means of change requests.

CREDIT RISKS

Definition

The credit risk of FMS-WM comprises the following risks considered material:

- **Borrower and issuer risk** comprises the risk that a contracting party, or a reference entity in the case of credit derivatives, does not fulfil the payment obligations resulting from loan agreements or securities issues in full or in a timely manner or that a credit event defined in derivative contracts occurs. Borrower and issuer risks are distinguished as follows:
  - **Default risk:** The risk that a borrower cannot fulfil payment obligations in full or on time or that a defined credit event occurs and that FMS-WM suffers a financial disadvantage as a result. In some cases, FMS-WM is in possession of guarantees or marketable collateral, the fulfilment or liquidation of which may be subject to uncertainties, however.
  - **Migration risk:** Risk that a borrower's or issuer's creditworthiness might deteriorate over time. The deterioration in creditworthiness does not immediately result in direct losses, but it increases the risk of incurring such losses in future. At the portfolio level the deterioration is reflected in the rating profile. Irrespective of the required or actual treatment for accounting purposes, a deteriorated credit profile is usually associated with declining market values.
- **Counterparty risk** is the risk that a contracting party's default makes it impossible to fully collect unrealised profits from derivatives and executory contracts. Counterparty risk is distinguished as follows:
  - **Replacement risk:** If a derivative counterparty defaults, a contract must be replaced at conditions that are less favourable than the ones applicable when the contract was initially made.
  - **Settlement risk:** FMS-WM delivers an asset that it has sold to a counterparty or makes a payment but does not receive the stipulated monetary amount or asset in return for that delivery.
  - **Credit valuation adjustment (CVA):** The risk that a counterparty's creditworthiness might deteriorate, thereby reducing the market value from FMS-WM's perspective. Derivatives may only be entered into to hedge risks if there is a credit support annex (CSA).
- **Country risk** comprises borrower, issuer or counterparty risks arising from the dependence of the contracting party on the actions of foreign states or political or economic developments. In particular, this includes the risk that a debtor cannot service its liabilities because
  - the government or central bank of the debtor's country cannot or will not make available the foreign currency required for such repayment or prohibits repayment (**transfer risk**) or
  - the currency of the debtor's country can no longer be converted due to a serious deterioration of the country's economic or political situation (**conversion risk**).

Risk strategy

FMS-WM's credit risk strategy entails to minimise losses by holding risk positions to maturity or winding them up and realising them profitably. As a rule, taking on new lending business or acquiring securities for other purposes than hedging risks is not stipulated in the wind up plan. In accordance with the business strategy, selective new business is only permitted in individual cases for the cost-efficient reduction of risks from existing positions or equity investments.

Risk identification

A catalogue of early warning signs, which is coordinated with FMS-SG, is used to continuously monitor risk exposures so as to ensure early identification of problem assets. Exposures are then classified into Facilities in Focus, Watchlist, Restructuring and Workout – in that order – if certain indications are present. Exposures are subject to increasingly intensified monitoring – in that order – to ensure that risks are detected and steps aimed at reducing risk can be initiated as soon as possible. The "Restructuring" and "Workout" categories are combined under "Problem Assets".

The guidelines agreed with FMS-SG for credit processes determine the requisite steps for performing risk reviews and risk assessments as part of regular monitoring. Early warning indicators as well as the credit processes are reviewed on a regular basis but at least annually by FMS-SG and coordinated with the responsible units within FMS-WM.

Risk analysis and assessment

Credit risk is measured using internal models that calculate the

- probability of default (PD) of risk positions,
- expected amount of the receivable at the time of default (exposure at default, or EaD), and
- potential loss given default (LGD).

The models for determining these parameters are reviewed annually by FMS-WM. The expected loss (EL) is calculated for a one-year horizon based on one-year PD, EaD and LGD. The EL is calculated on a per-transaction basis and aggregated at segment and portfolio level.

In addition, the cumulative expected loss for a longer planning horizon and for the entire term of the positions in the portfolio is calculated as a risk parameter, which, together with other data and information, is used for analysing the risk in the portfolio. Stress tests are conducted at both portfolio and segment level, and the unexpected loss is quantified with the help of a credit portfolio model. In sensitivity analyses and both historical and hypothetical scenario analyses, stress situations are modelled for the key risk parameters PD and LGD, and their effects are measured on the cumulative EL.

Risk steering

The Asset Management unit mentioned in the section entitled *Organisational structure of risk management* is responsible for steering credit risks, which due to the limited business purpose of FMS-WM involves strategies to wind up and realise assets profitably. In addition to holding risk positions, restructuring and selling them are the two most important tools that are available to FMS-WM for steering borrower and issuer risks. Monitoring limits are set for borrower and issuer risks, and their utilisation is measured and reported daily. The limits are reviewed regularly and as needed.

Various decision-making criteria are used to manage the portfolio, e. g. the long-term intrinsic value of a position is compared with the potential proceeds from its sale, while the current market environment and asset management's assessment of credit quality are also taken into account. Changes in market values are also considered within internal credit rating analyses because they can provide timely and independent indications of creditworthiness. Additional analyses regarding borrower and issuer risk and potential write-down requirements are also performed in the event of material market value changes.

Counterparty risks are managed by means of limits and application of the "gross future exposure" approach, which does not only take current market values and collateral received or granted into account, but also the potential future changes of derivatives' market values. Both replacement and settlement risks are managed by FMS-WM. As a rule, transactions entailing a counterparty risk may not be made without a sufficient borrower-specific limit. The extent to which the limit has been utilised must be verified before any new transaction takes place. All transactions are applied to the given borrower-specific limits immediately.

Limiting and managing counterparty risks distinguishes between two customer groups:

- **Counterparty risks involving customers in the portfolio:** The exposures also include derivatives with customers in the portfolio. These derivatives are generally not collateralised. New transactions may only be entered into in exceptional circumstances, for example with the aim of stabilising the overall exposure. Therefore, limiting these risks is not an activity performed for management purposes but solely for monitoring purposes, i. e. it is intended to help Risk Controlling identify implausible increases in exposure. Risk Controlling asks FMS-SG to adjust these limits on a regular or ad hoc basis. It becomes necessary to adjust limits in particular as transactions mature or in response to changes in market conditions.
- **Counterparty risks involving capital market partners:** The Group Treasury unit enters into money market transactions, derivatives and securities repurchase agreements to manage the risk and liquidity positions of FMS-WM. Managing these business activities requires limits that give the unit enough flexibility while enabling Risk Controlling to carry out its monitoring duties. The activities are restricted to a defined pool of counterparties; they are typically collateralised and are subject to an independent limit monitoring and escalation process by Risk Controlling.

If necessary, country risk provisions are recognised as generalised specific loan loss provisions based on published country ratings.

Risk monitoring and reporting

Pursuant to the current wind-up plan, borrower and issuer risks are primarily monitored at portfolio level but also at the level of individual exposures, if necessary, and described in the wind-up report to be prepared monthly. Furthermore, a detailed credit risk and stress test report evaluates credit-risk specific as well as integrated stress test scenarios once every quarter. This report is then presented to the RALCO.

At the level of individual exposures, FMS-SG monitors credit risk via approved processes. The migration of the ratings of the largest exposures is reported to the Executive Board in the wind-up report. In addition, FMS-SG reports monthly on the development of the watchlist and problem assets to the responsible asset managers at FMS-WM. Based on the data delivered and their own analyses, the asset managers monitor the individual exposures for their segments with regard to the decisions required in the interest of economic value maximisation.

Counterparty limits and their utilisation at transaction level are also recorded in the daily counterparty risk report, monitored and reported to the Executive Board as well as to the Group Treasury unit. An escalation process ensures timely reaction and communication to the Executive Board if limits are exceeded.

Country risks are measured and presented to the RALCO every six months.

Risk position

The portfolio of FMS-WM is managed through the Public Sector, Structured Products and Infrastructure segments. An exposure at default (EaD) is determined for all portfolio segments based on uniform specifications. The EaD shows the potential amount of the claim against the borrower irrespective of the latter’s credit rating and any risk provisions already set up in that connection. Besides the current drawdown, the EaD also takes into account the pro rata interest payments in relation to which a borrower may default before an exposure is defined as having defaulted (maximum 90 days) as well as those loan commitments which a borrower will still be able to draw on in future despite a significant deterioration in creditworthiness. The EaD of derivatives is defined as the sum of the current market value (after accounting for collateral) and the product-specific add-ons, which constitute a cushion for possible future market value increases.

The EL as an additional risk parameter for managing the portfolio is determined for the entire portfolio for a period of one year. The only risk positions exempted from the determination of the EL are those for which a specific loss provision was already recognised or which have an internal rating of 29 or 30.

The disclosures below correspond to the presentation of internal risk reporting in the wind-up report.

Breakdown of the EaD and the EL of the portfolio

Breakdown of the EaD and the EL of the portfolio (incl. customer derivatives and CDS) by segment:

EaD and EL in EUR billion	Public Sector		Structured Products		Infrastructure		Total (excluding hedge derivatives)		Hedge derivatives (incl. collateral deposited with banks)	
31.12.	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
EaD	27.7	30.7	14.9	17.3	12.0	12.3	54.6	60.3	1.1	1.0
EL	0.02	0.02	0.02	0.01	0.02	0.02	0.06	0.05	0.00	0.00

As at 31 December 2023, the EaD of the risk positions excluding hedge derivatives was EUR 54.6 billion. The decline of EUR 5.7 billion (9%) compared to the previous year primarily resulted from scheduled and unscheduled repayments and sales. Just under one-fifth of the portfolio wind-up in fiscal year 2023 is attributable to sales.

While the portfolio's EaD (excluding hedge derivatives) decreased by 9% year-on-year, EL increased by 17% to EUR 62 million (previous year: EUR 53 million). In relation to the EUR 54.5 billion in EaD from loans and advances for which specific loan loss provisions have not yet been recognised (internal rating classes 1 to 28), this corresponds to a one-year expected loss rate of 0.11%. The increase in EL is mainly due to rating migrations (mainly in the Structured Products segment).

Counterparty risks from hedge derivatives amounted to an EaD of EUR 1.1 billion as at 31 December 2023, up EUR 0.1 billion on the previous year. This increase is mainly due to market value movements. The one-year EL from hedge derivatives at EUR 0.5 million was at a similar level to the previous.

Breakdown of the portfolio by currencies

EaD in EUR billion[1]	Public Sector		Structured Products		Infrastructure		Total	
31.12.	2023	2022	2023	2022	2023	2022	2023	2022
EUR	18.1	19.6	3.2	3.8	0.9	1.0	22.2	24.4
USD	0.7	1.9	10.9	12.6	0.6	0.6	12.2	15.1
GBP	8.6	8.7	0.4	0.4	9.2	9.3	18.2	18.4
Other FX	0.3	0.5	0.4	0.5	1.3	1.4	2.0	2.4
Total	**27.7**	**30.7**	**14.9**	**17.3**	**12.0**	**12.3**	**54.6**	**60.3**

[1] *Excluding hedge derivatives with an EaD of EUR 1.1 billion*

Changes in exchange rates compared with 31 December 2022 had the overall effect of reducing the portfolio's EaD by EUR 0.1 billion, the reason being the 3.6% depreciation of the US dollar. In contrast, the British pound gained 2.0% against the EUR. All segments were impacted by currency effects.

Breakdown of the portfolio by internal rating classes (IR)

EaD in EUR billion[1]	Public Sector		Structured Products		Infrastructure		Total	
31.12.	2023	2022	2023	2022	2023	2022	2023	2022
IR 1–7	14.4	15.6	9.0	15.9	1.4	1.4	24.8	32.9
IR 8–10	12.3	13.9	4.9	0.4	8.6	8.7	25.8	23.0
IR 11–13	1.0	1.2	0.5	0.5	1.3	1.5	2.8	3.2
IR 14–22	0.0	0.0	0.0	0.2	0.6	0.6	0.6	0.8
IR 23–27	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IR 28–30	0.0	0.0	0.5	0.3	0.1	0.1	0.6	0.4
Total	**27.7**	**30.7**	**14.9**	**17.3**	**12.0**	**12.3**	**54.6**	**60.3**

[1] *Excluding hedge derivatives with an EaD of EUR 1.1 billion*

Looking at the percentages of investment grade financing (IR 10 and better) (31 December 2023: 93%; previous year: 93%), the breakdown of the portfolio into rating groups is virtually unchanged year-on-year. The slight increase in EaD in rating group IR 28 to 30 in the Structured Products segments is attributable to an exposure with a higher probability of default by the customer. A financial loss is not expected for the time being because the exposure in question is guaranteed. In the Structured Products segment, exposures with an EaD of EUR 4.7 billion in total were downgraded from rating group IR 1 to 7 to IR 8 to 10.

Rating group IR 1 to 7 includes 51% of all USD exposures (previous year: 81%), 49% of all GBP exposures (previous year: 50%) and 40% (previous year: 42%) of the EUR-denominated exposures in the portfolio. Rating group IR 8 to 10 comprises 40% (previous year: 12%) of all USD exposures, 46% (previous year: 45%) of all GBP exposures and 53% (previous year: 50%) of the EUR-denominated exposures.

Breakdown of the portfolio by countries and regions

EaD in EUR billion[1]	Public Sector		Structured Products		Infrastructure		Total	
31.12.	2023	2022	2023	2022	2023	2022	2023	2022
United Kingdom	8.1	8.2	4.6	4.7	9.2	9.2	21.9	22.1
Italy	11.4	12.8	0.5	0.5	0.2	0.2	12.1	13.5
Germany	0.1	0.1	2.4	2.9	0.2	0.2	2.7	3.2
Rest of Europe	7.2	8.7	0.3	0.4	0.4	0.5	7.9	9.6
USA	0.0	0.0	6.2	7.7	0.8	0.8	7.0	8.5
Asia	0.2	0.2	0.0	0.0	0.1	0.2	0.3	0.4
Rest of world	0.7	0.7	0.9	1.1	1.1	1.2	2.7	3.0
Total	**27.7**	**30.7**	**14.9**	**17.3**	**12.0**	**12.3**	**54.6**	**60.3**

[1] *Excluding hedge derivatives with an EaD of EUR 1.1 billion*
Allocation by country of the economic risk

The percentage of European borrowers increased year-on-year from 80% to 82%. The largest shares of the portfolio are still attributable to United Kingdom at 40% (+3 percentage points year-on-year), Italy at 22% (unchanged year-on-year) and the USA at 13% (–1 percentage point year-on-year) of the portfolio volume.

The Public Sector segment comprises securities and loans with an EaD of EUR 27.7 billion. Significant exposures exist in connection with Italian (EaD of EUR 11.4 billion) and UK borrowers (EaD of EUR 8.1 billion). The Rest of Europe region accounts for financing with an EaD of EUR 7.2 billion, including government bonds and loans in Belgium (EaD of EUR 2.0 billion), Spain (EaD of EUR 1.9 billion) and France (EaD of EUR 1.2 billion).

In the Structured Products segment with an EaD of EUR 14.9 billion, EUR 6.2 billion (42%) is attributable to the United States, with EUR 3.9 billion comprising FFELP student loan securitisations and EUR 1.8 billion being accounted for by securitised receivables from municipal borrowers. Furthermore, there are material risk positions with an EaD of EUR 4.6 billion in respect of borrowers from the United Kingdom and EUR 2.4 billion in respect of borrowers from Germany.

In the Infrastructure segment, 77% of the segment's EaD of EUR 12.0 billion – an EaD of EUR 9.2 billion – is attributable to UK borrowers. Another infrastructure financing focal point is Canada with an EaD of EUR 1.1 billion.

FMS-WM does not hold any exposures with counterparties from the Russian Federation, Belarus or Ukraine. The EaD with borrowers from neighbouring countries (Finland, Latvia, Poland and Hungary) amounts to EUR 0.7 billion as of 31 December 2023, corresponding to a share of 1.3% of the portfolio volume.

FMS-WM does not hold any risky positions in the Middle East.

Breakdown of the portfolio by remaining maturities

EaD in EUR billion[1]	Public Sector		Structured Products		Infrastructure		Total	
31.12.	2023	2022	2023	2022	2023	2022	2023	2022
Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Up to 1 year	0.5	1.8	0.4	0.5	0.1	0.0	1.0	2.3
1 to 5 years	2.7	2.4	0.7	1.3	0.8	0.9	4.2	4.6
5 to 10 years	0.9	2.2	2.7	2.0	0.7	0.7	4.3	4.9
10 to 20 years	14.3	14.8	8.7	10.4	3.4	3.3	26.4	28.5
20 to 30 years	4.6	4.6	1.9	2.8	2.4	2.7	8.9	10.1
More than 30 years	4.7	4.9	0.5	0.3	4.6	4.7	9.8	9.9
Total	**27.7**	**30.7**	**14.9**	**17.3**	**12.0**	**12.3**	**54.6**	**60.3**

[1] *Excluding hedge derivatives with an EaD of EUR 1.1 billion*
Remaining maturities in years (time at which the next adjustment of terms will be made)

58% of the infrastructure loans have a remaining term of more than 20 years, and 38% become due in more than 30 years. These are mostly inflation-indexed bonds issued by UK utility companies.

Of the receivables from borrowers in the Public Sector and Structured Products segments, financing with an EaD of EUR 9.3 billion (34%) and EUR 2.4 billion (16%), respectively, will become due in more than 20 years.

Watchlist and Problem Assets

EaD in EUR billion	Public Sector		Structured Products		Infrastructure		Total	
31.12.	2023	2022	2023	2022	2023	2022	2023	2022
Watchlist Assets	0.2	0.6	0.1	0.1	1.7	0.7	2.0	1.4
Problem Assets	0.1	0.1	0.5	0.3	0.1	0.1	0.7	0.5
Restructuring Assets	0.1	0.1	0.5	0.3	0.0	0.0	0.6	0.4
Workout Assets	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Total	**0.3**	**0.7**	**0.6**	**0.4**	**1.8**	**0.8**	**2.7**	**1.9**

Risk positions are classified as Watchlist Assets if the payment is delayed for more than 60 days or if another specified criterion triggers intensified monitoring of the given risk position. The Restructuring Assets category contains risk positions for which specific loan loss provisions were recognised as well as risk positions that have defaulted according to the Basel III criteria (e. g. payment past due > 90 days). Workout Assets comprise risk positions where a restructuring seems unfeasible, where legal action has been initiated and where a specific loan loss provision has been recognised.

The EaD of Watchlist Asset and Problem Asset exposures was EUR 2.7 billion in the reporting year. Around 5% of the portfolio exposure is managed as Watchlist Assets or Problem Assets in non-performing loan management.

The early warning system is designed to identify and closely monitor borrowers of FMS-WM whose credit or collateral quality might deteriorate. Non-performing risk positions where the arrears exceed 90 days are assigned to the non-performing loan management (i. e. Restructuring, Workout). This involves testing for impairment at regular intervals and upon occurrence of certain predefined events (“trigger events”) to determine the need for write-downs. If this is the case, a proposal for specific loan loss provisions is prepared and submitted for decision to the relevant committee.

As a rule, the general loan loss provision for loans and advances to customers and banks as well as for contingent liabilities and other obligations is calculated on the basis of the EL over the remaining term of the exposures. This is calculated on a case-by-case basis for each year through to maturity, taking into account the PD, EaD and LGD, and discounted to the reporting date using risk-free interest rates. Credit-rating premiums are not taken into account here. If, in the case of receivables, a contractual arrangement allows FMS-WM to adjust the terms in line with the risk during the term to maturity and this adjustment will be made as expected, in accordance with the objective set out in the Charter of unwinding the portfolio in a profit-oriented way, the calculation uses a shorter term over which FMS-WM is exposed to counterparty default risk rather than the contractually agreed term.

Major challenges arising from credit risks

FMS-WM has assumed large risks by taking over the portfolio effective 1 October 2010 and extending the portfolio. These risks can lead to further recourse to the FMS's loss compensation obligation and therefore to additional burdens on Germany's federal budget. As at the reporting date, the most important of these risks are:

- Portfolio concentration: The EL of a portfolio shows the expected value of the credit losses occurring within a specific forecast horizon as the result of the default risks to which the portfolio is exposed to. However, actual losses may deviate considerably from this. The greater the concentrations in the portfolio, the greater the danger that actual losses will differ significantly from the average losses expected. The portfolio shows high concentrations, particularly in relation to exposures in Italy and the United Kingdom.
- Long maturities: 90% of the risk positions have a remaining maturity of more than five years, and 83% will not be due for more than ten years. 18% of the risk positions have a remaining maturity of over 30 years, and many of these are inflation-indexed securities for which the exposure might grow over time.
- Risks of hedging transactions: FMS-WM's risk strategy stipulates broad hedging of the portfolio against market risks, such as interest rate, foreign exchange or inflation risks. In the event of default of the underlying credit risk positions, substantial additional losses can arise from the associated market risk hedging transactions.
- Financing structures: A significant number of FMS-WM's risk positions comprise exposures that were liquid at one time but have turned out to be illiquid since the crisis that occurred prior to the founding of FMS-WM. To make matters worse, in some market segments overall positive earnings contributions for FMS-WM are hardly realistic any longer, even in view of the currently extremely favourable funding options, since the margins agreed at the time of entry into the agreements no longer correspond to today's expectations of default for the risk positions.

If one or more of the aforementioned risks should materialise, this may have a significant impact on the risk provisions to be recognised under commercial law. FMS-WM recognises specific loan loss provisions on risk positions that are either already non-performing or where full repayment at maturity is no longer to be expected from today's vantage point. The adequate amount of the specific loan loss provisions for risk positions where FMS-WM expects to liquidate the provided collateral is determined by discounting the expected proceeds from collateral disposal using a risk-free interest rate. Furthermore, country risk provisions are recognised as generalised specific loan loss provisions for selected countries to address transfer and conversion risks.

MARKET RISKS

Definition

Any decrease of the value of the risk positions due to changed market conditions and market price factors gives rise to market risks. The following types of market risks are relevant to FMS-WM:

- **Interest rate risk:** This risk concerns the change in the present value of risk positions due to changes in the respective market interest rates.
- **Foreign exchange risk (FX risk):** This risk results from a change in foreign exchange rates and indicates how the given change will affect the value in euros of an FX exposure.
- **Credit spread risk:** This risk concerns the change in the present value in the event of changes in the underlying CDS or credit spread curve.
- Other market risks mainly encompass
  - **Basis risk:** Basis risk, such as foreign exchange or interest rate basis risk, can arise when transactions are financed with mismatches in currencies and/or terms and when reference interest rates for variable-rate transactions differ.
  - **Inflation risk:** Inflation risk describes the change in the present value of products whose interest or principal payments are linked to certain national or regional consumer price indices (inflation rates).

According to the current risk profile, the key market risk factors relevant for FMS-WM's risk management are interest rate risk and foreign exchange risk.

As previously, FMS-WM is not exposed to equity and commodity risks. Market liquidity risk is not considered material as fire sales at unacceptable prices can be largely ruled out. This is due to the funding opportunities available via the FMS and its obligation to supply FMS-WM with liquidity in a crisis situation.

Risk strategy

Market risks may not be entered into purely based on a profit motive, but instead only with the aim of winding up existing risk positions or avoiding new risk positions from arising. This limits possible fluctuations in portfolio value.

The objective of the market risk strategy is to minimise the fluctuations in value and potential effects on the income statement induced by market risk factors. The accounting according to the standards of the Handelsgesetzbuch – HGB is relevant in this context. The ratio of the expenditure required for hedging purposes to the realisable benefits must be commercially reasonable. The goal is to unwind the existing risk positions and avoid new ones.

To support the wind-up strategies and if requested by the Asset Management unit, hedge derivatives can be unwound at a point in time unrelated to the sale of the risk position, so as to increase the flexibility of planned restructuring and wind-up activities. In a way identical to that used for the rest of the portfolio, the interest rate risks of the risk exposures from approved wind-up strategies are identified, measured, limited strictly and separately, and reported daily as a separate item. The approved wind-up strategies are monitored by the responsible Asset Management unit and reported on regularly (at least quarterly) to the Executive Board.

For all activities of Group Treasury, the principle applies that Group Treasury can trade within the previously set limits without further restrictions. Its market units are responsible for the operational management of open positions; the Risk Controlling department is responsible for monitoring; and the RALCO is responsible for setting limits and establishing principles in connection with risk steering.

Risk identification

Market risks exist because of the structure of the portfolio, particularly in the form of interest rate and foreign exchange (FX) risks. The risks arising from changes in credit spreads are part of daily reporting, but due to the wind-up mandate they are not limited. Recognition of all third-party (held to maturity) securities using the moderate lower-of-cost-or-market principle prevents an increase in credit spreads from having a direct impact on profit or loss as long as an impairment is not permanent.

The daily data deliveries of FMS-SG as well as the information available in the IT systems along with current market data serve as the basis for identifying the market risks.

Risk analysis and assessment

Interest rate risks are measured using sensitivity analyses, i.e., the effects of a shift in interest rate curves by a basis point, at the net present value of the relevant risk positions. Separate analyses by maturity ranges enable FMS-WM to perform more extensive analyses of interest rate risks besides their sensitivity to a parallel shift, e. g. when the interest rate curve turns. Besides the detailed analysis by maturity range, separate assessments by currency are also performed to take into account that every currency has a different interest rate curve. In measuring interest rate risk, FMS-WM takes into account neither the margin components of cash flows nor credit spreads when discounting.

With the aim of keeping fluctuations in parameters relevant to income to a minimum, the on-balance sheet foreign currency position is determined, analysed and controlled on a monthly basis.

Credit spread risks are discounted based on the current credit spreads. The parameter used in this case is the change in the NPV for credit spread changes by one basis point.

Suitable quarterly stress tests based on hypothetical but plausible and historic interest rate, foreign exchange and credit spread scenarios as part of cross-risk type stress tests complement risk measurement and analysis based on sensitivities. FMS-WM does not carry out market risk-specific stress tests because these are not relevant in terms of risk management.

Risk steering

The Group Treasury unit opens risk positions only to a limited extent and subject to the existing limits for purposes of risk steering. This is particularly necessary for short-term liquidity management, which can expose FMS-WM to short-term interest rate risks, for example. The management of interest rate and foreign exchange risks may give rise furthermore to a limited amount of open risk positions subject to the existing limits. For reasons of efficiency, risk positions are not effectively hedged unless they reach certain transaction volumes in order to avoid price surcharges due to smaller transaction volumes or short-term market distortions. In steering market risks, write-downs are recognised appropriately for risk positions.

The Asset Management and Group Treasury units may only utilise approved financial instruments for hedging the risk positions.

Interest rate risks are managed using a limit system for interest rate sensitivities per currency and maturity range, including an escalation process for limit breaches.

For interest rate risks from risk positions whose hedge derivatives were unwound pursuant to a wind-up strategy at a point in time unrelated to the sale of the risk position, separate limits are determined on submission of the wind-up strategy for the relevant portfolio. The Risk Controlling department monitors these strict limits within the approved range. Reviews of the wind-up strategies are conducted at least quarterly and include the management of interest rate risks. Management is handled by the Group Treasury unit in accordance with the stipulations from the wind-up strategies.

The approach to manage the foreign-currency position is based on managing the on-balance sheet FX position calculated monthly such that the effects of fluctuations from changes in FX rates on income are as low as possible. To this end, specific limits are defined per primary currency along with a limit for secondary currencies and an escalation process. The limits are monitored based on the previous month's on-balance sheet foreign-currency position as well as postings of FX transactions that are relevant to the balance sheet and have occurred in the interim.

The risks from changes in credit spreads are not limited, since the task is to profitably wind-up and realise the portfolio. These risks are managed by Asset Management as part of the portfolio wind-up.

Risk monitoring and reporting

Market risks may not exceed sensitivity limits in the daily risk management process. Limits are monitored based on the daily market risk report that is prepared by FMS-SG and analysed by FMS-WM's Risk Controlling department. The report, which also includes the credit spread sensitivities, is made available to both the Executive Board and the Group Treasury unit on a daily basis. The defined review and escalation process applies whenever limits are exceeded. In the event of the approved limits for exposures from wind-up strategies being exceeded, the measures defined for this event by the adopted strategies are triggered.

Additionally, market risks are regularly reported in the RALCO and as part of the monthly wind-up report to the Executive Board. The Supervisory Board is also informed about market risks on a quarterly basis via the wind-up report.

Risk position

The main factors affecting interest rate sensitivities are exposures in assets and liabilities with fixed interest rates where the interest rate risks are hedged largely through interest rate derivatives. As determined based on the method applied, the interest rate sensitivity of all relevant risk positions as at 31 December 2023 was EUR –0.11 million (31 December 2022: EUR –0.06 million). This means that the present value of the portfolio would decrease by EUR 0.11 million in case the interest rate curves of all currencies rise by one basis point simultaneously. Substantial interest rate sensitivity exposures concern the euro in the amount of EUR –0.08 million (31 December 2022: EUR –0.06 million) and the US dollar in the amount of EUR –0.07 million (31 December 2022: EUR –0.02 million). The change in interest rate sensitivity in the euro zone is largely due to positions in the short-term maturity range. The positions from approved wind-up strategies entail additional risks of EUR –0.16 million as at 31 December 2023 (31 December 2022: EUR –0.11 million).

On all trading days in fiscal year 2023, interest rate sensitivity lay within a bandwidth of EUR –0.15 million to EUR –0.01 million. The interest rate sensitivity of exposures from agreed wind-up strategies ranged from EUR –0.28 million to EUR –0.02 million.

Foreign exchange risks are managed based on the balance sheet position and the derivative hedging positions subject to compliance with the fixed limits. The open FX position as at 31 December 2023 amounted to EUR 4.6 million for all currencies. The FX position shown in the balance sheet is closed to an extent that enables compliance with the approved limits.

Since interest rate exposure in the portfolio is largely closed, any future changes in interest rate curves will only minimally influence the value of FMS-WM's portfolio.

Inflation risks – as an aspect of market risks – are still deemed to be minor. Most of them are hedged. Inflation sensitivities are low and remain relatively constant.

LIQUIDITY RISKS

Definition

FMS-WM distinguishes between tactical and strategic liquidity risks:

- The **tactical liquidity risk** concerns the risk of not being able to generate sufficient cash on short notice such that present or future payment obligations may not be fulfilled at all or not in full when due under the contract.
- **Strategic liquidity risk** is the risk of being able to implement the necessary measures described in the funding strategy in the market only at greater expense. An unexpected rise in funding costs might result from general market distortions or idiosyncratic events, for instance.

Risk strategy

The liquidity risk strategy aims to ensure that FMS-WM is solvent at all times, even under stress conditions. To ensure that this is the case, FMS-WM, in addition to an appropriate liquidity reserve comprising a cash reserve and short-term reverse securities repurchase agreements, holds highly liquid, ECB-eligible assets in the form of own and third-party bonds, which, indirectly through securities repurchase agreements, represent a sufficient liquidity reserve, and also limits daily net cash outflows of the next ten days to no more than EUR 2 billion.

Through the FMS, FMS-WM has access to a funding facility of EUR 60 billion, which can be used for longer-term borrowings. This facility is used both for funding in EUR and, in conjunction with FX derivatives, for selected foreign currencies.

FMS-WM diversifies its additional funding requirements on the money markets in terms of the investor base, maturities, product range (secured and unsecured products and programmes), markets (e. g. countries) and currencies. FMS-WM established original access to foreign currency funding (in particular in USD and GBP) and is able to tap liquid FX markets (FX spot and FX derivatives) at all times.

When obtaining liquidity, FMS-WM ensures that its credit rating is not adversely affected. Within this framework, FMS-WM optimises its liquidity costs.

Risk identification

To identify the tactical liquidity risk, the liquidity maturity profile is analysed for each maturity range based on different scenarios and then compared to the liquidity cushion.

Strategic liquidity risks are identified by way of an analysis of the expected funding costs based on the long-term funding structure and the expected cash outflows in accordance with the assumptions under both the wind-up plan and the funding plan.

Risk analysis and assessment

Analysing the tactical liquidity risk requires determining the liquidity position by means of the maturity profile of all assets and liabilities (gap profile), which is based on the 24-month forecast for three components:

- Contractual cash inflows and outflows including nostro account balances
- Assumptions with respect to
  - extensions of available assets,
  - drawdowns from credit lines granted,
  - availability of the funding instruments, and
  - liquidity effect of market scenarios (including interest rate, FX and credit spread scenarios)
- Liquidity reserve encompassing liquid, free securities eligible for ECB funding purposes

In terms of assumptions, FMS-WM analyses two scenarios in its daily risk report whose methodology reflects the special situation of FMS-WM. Both scenarios include the normal case as the basic assumption and a “global financial market crisis” as the stress scenario.

Monthly back-testing enables regular reviews of the adequacy of the assumptions in the scenarios. During this process, the projected liquidity position is compared with the actual liquidity position. The assumptions for the normal case and the stress scenario remained the same as in the previous year.

The strategic liquidity risk is determined by analysing the deviation of the actual funding volume from the funding plan, the deviation of the funding costs from the funding plan as well as funding concentrations. Building on this, a quarterly analysis of the effects of an increase in FMS-WM’s own funding cost rate on net interest income is carried out.

Risk steering

The tactical liquidity is managed by the Group Treasury unit. Secured and unsecured money market instruments are available to this end based on the approved product catalogue.

Strategic liquidity is also ensured by the Group Treasury unit. The Group Treasury unit prepares the long-term funding strategy and its derived funding plan and implements it mainly by obtaining funding via the FMS with maturities of more than one year.

The one scenario that would significantly affect FMS-WM, given its funding structure, was selected among the defined stress scenarios for the purpose of limiting liquidity risk. The Global Financial Market Crisis scenario and a minimum survival period of 90 days were fixed as the limit based on the experience of recent years. Within this period, the liquidity position must be positive even under the premises of the defined scenario such that FMS-WM remains solvent at all times by realising its liquidity reserve.

The liquidity contingency plan fixes the actions that must be taken in the event of a liquidity shortage.

Risk monitoring and reporting

The liquidity profile of FMS-WM is monitored daily and reported to both the Executive Board and the Group Treasury unit. The Risk Controlling department monitors compliance with the limit on a daily basis. The following escalation process is carried out in case of limit breaches:

- Group Treasury verifies the limit breach and gives its view of the expected duration of the breach and the actions required to cure it.
- Risk Controlling comments on these measures and monitors their implementation.
- The Executive Board is notified immediately of the limit breach.

As long as the limit breach has not been cured, the Executive Board and the Group Treasury unit are kept abreast daily of the degree to which agreed-upon steps have been implemented. The RALCO is also informed of limit breaches as part of the regular reporting.

Independently of this, the liquidity position is reported monthly to the Executive Board and quarterly to the Supervisory Board as part of the wind-up report.

Risk position

In fiscal year 2023, FMS-WM's funding strategy was successfully implemented.

Within the FMS funding facility, longer-term EUR-denominated funding of EUR 6.0 billion was raised as planned in fiscal year 2023. FMS-WM's issuing activity for the purpose of money market funding under the ECP / CD Programme and the USCP Programme further contributed to a sustainable funding structure for FMS-WM in 2023. The money market funding had an average remaining maturity of approximately 1.6 months as at 31 December 2023.

As at 31 December 2023, FMS-WM's positive liquidity cushion is EUR 19.6 billion based on the assumptions of the stress scenario, Global Financial Market Crisis, and pursuant to the defined minimum survival period of 90 days (31 December 2022: EUR 15.3 billion).

OPERATIONAL RISKS

Definition

Operational risks include all risks that can arise from the inadequacy or failure of internal processes, employees, systems, or due to external events. The following operational risks are of particular relevance for FMS-WM in addition to other operational risks:

- **Outsourcing risk:** Refers to potential losses from the outsourcing of institute-specific activities and processes to third parties. Aside from the default of the service providers, this also includes the risk that services contracted for are not provided at all or not in the stipulated quality or within the stipulated time.
- **Project risk:** Refers to the risk that FMS-WM cannot fulfil key functions and meet planned goals for department-related and/or IT projects, or fulfil or meet these adequately, owing to unsuccessful or late implementation, or implementation at higher than anticipated project costs.
- **IT risk:** Denotes all risks to FMS-WM's asset position, financial position and results of operations as a result of shortcomings related to IT management and IT steering respectively, the availability, confidentiality, integrity and authenticity of data, the internal control system of the IT organisation, the IT strategy, IT guidelines and IT aspects of the rules of procedure or the use of information technology. This includes physical data media.
- **Legal risk:** Legal risk can be broken down into three risk subtypes:
  - **General legal risk** (also **risk relating to the application of the law**) denotes the risk of future financial losses arising from the breach of applicable legal (including contractual) provisions. With regard to contractual arrangements, this primarily includes the risk that claims may not be enforceable for legal reasons or contracts otherwise result in unforeseen financial losses for legal reasons. Risk relating to the application of the law also includes the voluntary decision to bear a loss in order to avert an imminent legal risk.
  - **Risk relating to changes in the law** denotes the risk of future financial losses arising from new or amended standards applicable to FMS-WM. This also includes the risk arising from new or amended case law or changes in application in practice.
  - **Compliance risk** is the risk of future financial losses as a result of breaches of or failure to comply with laws, regulations, provisions, agreements, prescribed practices or ethical standards. Unlike general legal risk, this relates to standards, breaches of which usually have legal consequences in the form of a state act (e. g. administrative or other fines) or the annulment of contracts due to a statutory prohibition. Compliance risk also includes risks arising from non-compliance that may result in reputational damage.

Risk strategy

The main objective is generally to prevent and reduce these risks and specifically in relation to

- outsourcing risk to ensure excellent performance by service providers and therefore operating stability as well as to guarantee profitable portfolio management,
- project risk to achieve the project objective on schedule and within the budgeted project costs,
- IT risk to ensure a risk- and earnings-oriented approach to IT management addressing the proper functioning of IT, the stability of the applications used and the data contained in the applications, and for physical data media the provision of efficient security measures near at and in the offices of FMS-WM,
- legal risk to avoid or reduce of such risks by involving the Legal & Group Compliance unit of FMS-WM at an early stage.

Risk identification

Operational risks at FMS-WM and likewise at FMS-SG are identified through the annual Operational Risk Self-assessment (ORSA), the documentation of operational risk events and possibly resulting losses, and the Key Risk Indicators as early warning indicators required to be captured on a regular basis.

Given the considerable significance of outsourcing risk, FMS-WM has set up a competence team in the Servicer Steering & IT Planning department that is dedicated to managing and monitoring outsourcing. The central outsourcing officer identifies the risks concerning the outsourced activities and processes together with the relevant technical departments.

Project risks are identified in a two-step process by which risks are reported and recorded by the project manager in question. On certain projects, a risk database is used to perform a full risk identification.

IT risk is identified by means such as error logs in the event of the unavailability of or interruptions to IT systems. The internal control system and the IT controls defined there are also used in the process. Information risks for physical data media are identified by way of threat analyses and subsequently through regular technical or manual assessments against specified target measures.

Legal risks due to changes in the existing legal environment are identified by the individual units on the basis of a tool that receives information from the Association of German Public Banks (Bundesverband Öffentlicher Banken Deutschlands).

Risk analysis and assessment

Operational risks at FMS-WM and at FMS-SG are analysed and assessed

- ex post via the recorded relevant operational (loss) events in the common event / loss database within the common operational risk workflow tool,
- ex ante via the results of the standardised ORSA conducted each year, which includes estimating the frequencies of occurrence and potential losses in a common operational risk workflow tool, and
- by analysing agreed early warning indicators.

The Servicer Steering & IT Planning department analyses and then assesses outsourcing risk as part of the risk analyses in conjunction with the affected departments / units and with the Risk Controlling department. In this context, the first step is to classify the outsourced activities according to materiality using a structured method with risk assessments. Additional risk analyses and assessments are carried out for material outsourcing and sub-outsourcing activities. These risk analyses are updated as necessary but at least once a year. If material risks are identified, the affected unit is required to document the risk immediately in the ORSA. Non-material risks are recorded in the course of the annual ORSA. Group Internal Audit receives the risk analyses for information.

The risk in respect of relevant projects is analysed and assessed based on evaluations of the project risk's probability of occurring and its potential impact using defined scales. Combining the two parameters yields an overall assessment that entails classifying each individual project risk into a risk matrix. Based on specific combinations risks are classified as low, high or critical. Analysing and assessing the risks is the job of the project manager, who determines the criticality of the risks depending on their degree of influence on the major goals of the project.

IT risks are identified using methods such as searching a catalogue of risk types to determine permanent and ad-hoc risks arising from the operation of IT applications. In the event of the unavailability of or interruptions to IT systems, error logs are also analysed and incorporated into the overall IT risk situation. IT risks are analysed, assessed and consolidated on a regular or ad hoc basis by the IT-Retained organisation or Risk Contact Persons within FMS-SG that are responsible for tasks such as controlling IT outsourcing.

Information risks for physical data media are analysed and assessed by a body made up of the Chief Information Security Officer and Corporate Services, among other members, which assesses the target measures and gives individual consideration to any target measures not carried out or any different mitigation measures.

The legal risks of a transaction are analysed and assessed by the Legal & Group Compliance unit, if necessary with the involvement of external law firms. General legal risks arising from changes in the legal environment are analysed and assessed by the unit responsible for the relevant requirements.

Risk steering

For potential operational risks classified as critical in the ORSA, action plans and measures must be agreed and implemented that serve to reduce the loss amount and/or the probability of occurrence. The measures are documented in the Group-wide operational risk workflow tool. These risks are managed by FMS-SG or by the affected unit of FMS-WM in accordance with assigned responsibilities. A contingency plan has been defined for all business-critical processes as an operational risk mitigation measure within FMS-WM. The new-product process (NPP) serves to lower risks from operating new products, for example.

Outsourcing risk is steered by agreeing qualitative performance indicators and by requesting regular assessment of the end products from the recipients of these deliverables. The assessments factor in timeliness and quality, and are documented in service management software. The quality of performance is ensured by regular communication with the service providers and through measures that are coordinated with them and monitored by FMS-WM. Escalation processes that start with the responsible staff member and end with the Executive Board have been defined for performance of the measures.

Project risks are managed by project managers using suitable risk-reducing measures which are presented to the project steering committee for information purposes. The implementation and effectiveness of these measures is monitored.

IT risks are monitored using appropriate technical and manual controls and processes. FMS-SG and the Risk Contact Persons consolidate and control IT risks and initiate or coordinate any risk mitigation measures that go beyond control with the FMS-WM risk acceptance committee.

Information risks for physical data media are regularly monitored through suitable technical and manual controls and identified by way of threat analyses. Any measures required to be initiated are monitored in the standard control process.

FMS-WM uses clearly defined governance structures and processes to manage legal risks. FMS-WM's close cooperation with FMS-SG makes it possible to identify potential future risks early on and avoid them before they arise. External specialists are used as necessary in connection with legal matters. In cooperation with the executive management of FMS-SG, FMS-WM's Legal & Group Compliance unit controls and monitors legal risks which could arise for FMS-WM in its dealings with third parties.

In particular, FMS-WM counteracts the risk of internal and external fraud based on an internal control system, an Internal Audit unit and ongoing measures to safeguard employees' risk awareness and sense of vigilance. Both FMS-WM and FMS-SG have established the legally required central function to prevent other criminal acts.

Risk monitoring and reporting

Operational risks that concern the services provided by FMS-SG are monitored directly at FMS-SG. Operational risks and losses incurred by FMS-WM, or by FMS-SG that have an effect on FMS-WM, are reported to the Executive Board in the monthly wind-up report and to the Supervisory Board once every quarter. The results of the ORSA are reported to the Executive Board and Supervisory Board either in a separate ORSA report or in the annual operational risk report, which also covers the operational events and loss events that occurred and the risk early warning indicators.

FMS-SG publishes a quarterly report on relevant early warning indicators agreed with FMS-WM's Risk Controlling department; this report addresses potential operational risks at FMS-WM and FMS-SG as well as potential operational outsourcing risks of FMS-WM and is presented the Executive Board once a year as part of operational risk reporting.

The aforementioned reports provide the Executive Board of FMS-WM with a comprehensive overview of operational risks, both at FMS-SG and at FMS-WM.

Monitoring outsourcing risk is the responsibility of the Servicer Steering & IT Planning department. The performance of outsourcing partners is reported on in the quarterly wind-up report, and in a detailed service provider management report provided to the Executive Board.

Project risks are reported in regular project meetings, steering boards and, where applicable, directly to the Executive Board of FMS-WM depending on the scope of the project in question. These reports also cover changes in the project risk situation as well as the status of implementation and effectiveness of mitigation measures. Significant risks arising from IT projects are consolidated and reported to the Executive Board via quarterly IT risk management reporting. In the case of significant non-IT projects, regular reports that also take project risks into account are submitted to the Executive Board.

The latest IT risk situation from operations regarding the capability of IT service providers is also monitored and reported to the Executive Board via quarterly IT risk management reporting that also includes reports on information risks arising from physical data media.

In parallel, regular checks are performed on IT processes and workflows. In doing so, measures to mitigate IT risks are implemented and any shortcomings identified are documented and remedied.

The relevant decision-makers are informed if significant legal risks emerge or threaten to emerge in relation to individual transactions. Legal and regulatory changes as well as changes in general case law are monitored by the individual units.

Risk position

The expected losses in FMS-WM and FMS-SG estimated in the ORSA have increased slightly compared to the previous year.

An EL of EUR 16.1 million (previous year: EUR 15.1 million) was determined for the fiscal year. The year-on-year increase is mainly due to a detailed analysis of the risks from hacker attacks, which were identified as part of the annual fraud analysis. Compared to previous years, additional scenarios and risks were analysed by the units and the potential losses in the event of occurrence were estimated based on uniformly specified frequencies of occurrence.

Out of the total of all identified operational risks, around 96% have an EL of less than EUR 0.1 million, while 4% have an EL between EUR 0.1 million and EUR 0.5 million; only three risks were determined to have an EL of more than EUR 0.5 million.

OTHER RISKS

Tax risk

Tax risk assessed on a qualitative basis results from potential changes in tax legislation, from potential changes in tax jurisdiction and from interpretations in the application of tax laws by FMS-WM that potentially differ from those of the tax authorities. Adequate processes are in place at FMS-WM for the analysis and management of tax risk. It turns to external advisers as necessary in connection with tax matters.

ASSESSMENT OF THE OVERALL RISK EXPOSURE AND OUTLOOK

The largest risks to which FMS-WM is exposed still are credit risk and operational risk, especially outsourcing risk.

FMS-WM's credit risks arise from the portfolio transferred from the HRE Group and from the portfolio extensions. With the exception of a few cases related to forced extensions, restructurings and rescue acquisitions subject to strict limits, under its business strategy FMS-WM will not engage in any new business that entails additional credit risks.

The portfolio comprises financing, with some positions having very long maturities. Furthermore, the portfolio also carries high concentration risks which are expected to intensify further over time due to the varying speed with which the portfolio will be wound up through scheduled and unscheduled principal repayment or sales. Portfolio concentrations are monitored as part of the determination of credit risk but can only be managed to a limited extent due to the task of winding up the portfolio. This is done implicitly by incorporating them into the control logic (including unexpected loss) and explicitly by developing wind-up strategies and making decisions on individual assets. The greater the concentrations in the portfolio, the greater the danger that actual losses will differ significantly from the average losses expected at portfolio level. Defaults in large positions in the portfolio could therefore put significant downward pressure on financial results. In keeping with its profit-oriented wind-up strategy, FMS-WM intends to reduce the credit risks incrementally pursuant to the guidance in the wind-up plan.

Most the portfolio reduction in the current fiscal year was achieved through repayments and sales, mainly in the Public Sector and Structured Products segments.

FMS-WM recognises risk provisions for at-risk and impaired risk positions by recognising specific loan loss provisions for loans or writing down securities. In addition general loan loss provisions are recognised for potential default risks in the portfolio. In the case of specific unwinding measures, provision is also made for foreseeable losses. If necessary, country risk provisions are recognised for country risks. Market and counterparty risks are subject to stringent limits and extensive monitoring. Changes in the interest rate, foreign exchange and counterparty risks to be monitored arise in particular from funding and hedging activities. In the case of certain sales strategies, hedging instruments can be unwound at a point in time unrelated to the sale of a position. The resulting open market risk positions are monitored, subjected to limits and reported on separately. Regular reports are issued on the progress of the wind-up strategies. If necessary when market conditions or the prospects of implementing the individual strategy change, the positions are hedged again.

Measures aimed at retaining staff such as opportunities for flexible working and promoting a better work-life balance (e. g. remote work and working abroad) as well as individual development and training opportunities make a significant contribution to operational stability. They are intended to increase the competitiveness and employer attractiveness of FMS-WM.

Winding up the portfolio in a profitable way will continue to be the focus in fiscal year 2024. The portfolio is expected to be unwound further by an estimated EUR 4 billion to EUR 6 billion nominally, especially in the Structured Products and Public Sector segments. The anticipated wind-up depends heavily on the prevailing market environment.

Major uncertainties in the macroeconomic outlook arise from military conflicts (such as the war in Ukraine and the Middle East), with possible knock-on effects again for supply chains and inflation. Tensions between the People's Republic of China and the Republic of China (Taiwan) and the outcome of multiple elections taking place in 2024, including those in the USA and the UK, along with the increasingly probable recession scenarios for several European countries as a consequence of the quick-succession interest rate hikes will add to the uncertainty in relation to the future developments. The effects of climate change could bring further negative consequences, which could exacerbate supply bottlenecks. With regard to credit risk, no direct or indirect consequences for FMS-WM's portfolio are apparent at the time of preparation of the annual financial statements for the period ended 31 December 2023. In terms of liquidity risk, no negative effects for FMS-WM are apparent at the time of preparation of the annual financial statements for the period ended 31 December 2023 in light of its prime rating. Also in terms of market risk and operational risk, no negative effects are apparent at the time of preparation of the annual financial statements for the period ended 31 December 2023. However, any further escalation of the war in Ukraine or in the Middle East may have negative effects on all risk types or planned wind-up measures.

Report on opportunities and forecast report

MACROECONOMIC DEVELOPMENTS

Unless otherwise indicated, the following data is presented on an annualised basis.

The IMF[5] projects global economic growth of 2.9% for 2024. At 4.0%, growth forecasts for emerging market and developing economies for 2024 are much higher than for the advanced economies, with growth of 1.5% anticipated for the United States and 1.2% for the euro zone. The economy of the People's Republic of China is projected to expand by 4.8% in 2024.

Although the UK economy is still expected to perform worse than continental Europe in 2024, the leading rating agencies continue to put it at the upper end of the investment grade spectrum and assign it a stable outlook. Only Fitch's outlook is still negative, a reflection of the rising government debt in the UK and an uncertain outlook with regard to fiscal consolidation in response to the macroeconomic weakness. The IMF's expectations for Italy's economic growth in 2024, at 0.7%, are below the estimates for euro zone growth and the rating for Italy is still at the lower end of the investment grade spectrum. The outlook is considered consistently stable by the three leading rating agencies in a reflection of more stable future prospects for the country's economic strength, the condition of the banking sector and the growth of public debt.

While inflation rates in the biggest economic areas receded again in 2023 following the key rate hikes in 2022 and 2023, they remained at a fairly high level in early 2024 compared with the target level of 2.0% set by the leading central banks. Inflation is expected to successfully fall for the advanced economies in particular as the monetary policy framework improves.

[5] *Source: IMF World Economic Outlook, October 2023 (also applies to further references to the IMF in this section)*

Macroeconomic opportunities and risks could materialise from the following factors (note that these are not included in the assumptions underlying the statements made in the *Development of FMS Wertmanagement* section):

- On the geopolitical side, the war in Ukraine and the conflict in the Middle East continue to pose risks and may generate volatility in the financial markets.
- The high interest rates have greatly increased the risk of recession for specific economies. Depending on how severe this turns out to be, it may have adverse effects on the economies affected in the medium to long term.
- Volatility in the interest rate markets may involve opportunities and risks for FMS-WM. On the one hand, amid high government debt, rising interest rates mean more expensive funding for some states and pose a threat to their debt sustainability. On the other, rising interest rates improve FMS-WM's results of operations. In addition, rising interest rates lead to a decline in the negative fair values of interest rate derivatives and thus to a decrease in the cash collateral required to be provided for those derivatives, which in turn can lead to a decline in FMS-WM's total assets. Rising interest rates may also present opportunities for unwinding in individual sections of the portfolio.
- Due to a marked improvement in basic immunisation, major economic impacts caused by COVID-19 are now less likely. While COVID-19 cases were up again in the United States and Germany in the second half of 2023, they came nothing near the record levels seen during the pandemic.
- Further supply chain bottlenecks caused by a lack of transport and staff capacity or unsafe trading routes amid a sustained high level of consumer demand could give rise to additional risks, as could a renewed uptick in inflation precipitated by higher wages and staff shortages in some sectors. This could drag on the economies with relevance for FMS-WM.
- A sharper downturn in the Chinese property sector and a prolonged period of weakness in the People's Republic of China's labour market could have a negative impact on Chinese investment activity and Chinese consumption, which would have negative consequences for export-focused countries.
- A worsening of the crisis in the US office real estate market could have a negative impact on the property sector. Depending on the intensity of the crisis, individual banks or the banking sector as a whole could also be affected.
- Political changes and question marks about the outcome of upcoming elections, particularly in the US, are potential sources of uncertainty.
- Added to this are other existing uncertainties, such as geopolitical tensions in several regions around the world, environmental risks (climate change), social conflict and labour disputes, and the tensions between the countries that uphold western values and authoritarian states. These factors of uncertainty may have a negative impact on global economic development, for example in the form of supply shortages.

FMS-WM, with the help of external sources, believes that these macroeconomic developments will have the following effects on the portfolio:

Infrastructure

The United Kingdom's privately financed hospitals are subject to increased scrutiny by the recipients of the services (UK trusts). According to ratings firm Moody's, the growing disputes over agreed payment mechanisms increase the systemic risk for this type of financing arrangement. These challenges will result primarily in lower revenues and higher costs and not in the termination of the relevant agreements. However, it increases the systemic risk for hospital projects and may have a considerable adverse effect on the creditworthiness of project companies.

Moody's maintains its negative outlook for regulated water providers in the United Kingdom for 2024. In October 2023, the companies presented their business plans for the period from April 2025 to March 2030 to the regulatory authority, outlining the biggest investment programme since the sector's privatisation. There is a risk, however – resulting from negative public sentiment, among other factors – that the regulatory authority will set unfavourable prices for the water providers in December 2024. This would weaken the sector's credit quality, making it less attractive to investors.

For providers of electricity and gas distribution networks in Europe, Moody's is retaining a stable outlook again for 2024. Credit quality will continue to be supported by established and transparent regulation. Moody's also assumes that due to a number of regulatory requirements which entered into force at the beginning of 2024, the expected returns for most of the companies and financing instruments rated will factor in the higher interest rates at least to some extent.

Moody's has kept its outlook for the European toll roads sector stable because it estimates that growth in traffic in Europe will slow in 2024 as a consequence of more subdued economic conditions and that in the longer term higher interest rates will weaken to around 1% to 2%. Nevertheless, toll revenues are expected to stabilise on account of the indexing mechanisms built into most concessions. Moody's therefore anticipates that revenues on the motorways will rise by 4% to 5% in 2024.

Public Sector

In light of the decrease in risk premiums on ten-year European government bonds in 2023 and what appears to be robust fundamental credit quality in Europe's peripheral countries, current risk premiums in the Public Sector segment are expected to largely stabilise in 2024. However, if the geopolitical conflicts were to broaden or existing conflicts were to escalate further, credit spreads might widen again. On the monetary policy side, it is expected that the three major central banks (the ECB, Fed and BoE) will cut interest rates in 2024.

Structured Products

US municipals

Market participants in the US municipals market expect 2024 to bring an end to the Fed's interest rate hikes, slight growth in the US economy of 1.5% and stable credit spreads for US municipal bonds. The issue volume in 2023 fell somewhat short of the previous year's expectations. Issue volumes for US municipals are expected to be on the same level or slightly higher in 2024, falling within a range of USD 400 billion to USD 410 billion. New issues should be between USD 300 billion and USD 315 billion, down on the prior-year level. Funding volumes are expected to be between USD 95 billion and USD 100 billion, which would exceed 2023 volumes and mark a return to 2022 levels.

ABS

The forecast ABS issue volume in the USA could be higher than 2023 levels, at a volume of USD 270 billion to USD 275 billion in 2024. The credit quality of student loan asset-backed securities is changing in line with expectations in connection with the US government guarantee on FFELP loans. Following a record high in the fourth quarter of 2022, repayment rates have now returned to normal levels thanks to the Biden Forgiveness Plan. As things stand, significant changes are not expected unless the political framework for these student loans changes.

DEVELOPMENT OF FMS WERTMANAGEMENT

Portfolio

The portfolio is expected to be unwound further by an estimated EUR 4 billion to EUR 6 billion nominally in fiscal year 2024, especially in the Public Sector and Structured Products segments. The forecast is based on the contractual terms of the portfolio, factoring in assumptions about the economic repayment profile for structured products and assumptions by FMS-WM about sales, required compulsory extensions and restructuring measures.

The anticipated portfolio wind-up hinges on the prevailing market environment. Alongside the execution of planned measures, FMS-WM's wind-up strategy is also based on the exploitation of opportunities as these arise, identified by continual monitoring of the portfolio and market conditions.

So far in fiscal year 2024, there have not been any concrete indications that the anticipated wind-up target for fiscal year 2024 cannot be achieved.

Results of operations

Subject to further geopolitical developments, particularly in connection with the wars in Ukraine and the Middle East and its effects and if no unforeseen events trigger other critical developments affecting the portfolio of FMS-WM, the company is again expected to at least break even in the years to come. If the interest rates observed in relevant currencies at the start of 2024 do not fall considerably, net interest income in fiscal year 2024 is expected to remain at the same level as fiscal year 2023. Administrative expenses are expected to be in line with the 2023 figure in 2024 despite inflation in the procurement markets of importance to FMS-WM. Furthermore, the result from ordinary activities is mainly dependent on Risk provisions and Net income from investment – volatile items which are heavily influenced by valuation decisions and sales results. Due to the high concentration risks in individual counterparties and in some individual markets, valuation parameters may lead to corresponding positive and negative deviations in these items, resulting in deviations from the forecasted result.

Based on the above assumptions, FMS-WM's 2024 forecast predicts to at least break even in terms of its result from ordinary activities, because it expects the positive balance from current earnings less administrative expenses to be at least equal to a possible negative balance of the Risk provisions and Net income from investments items influenced by valuations and the proceeds of sales.

So far in fiscal year 2024, there have not been any indications that contradict these forecasts.

Funding

FMS-WM assumes that it will be able to raise funds as planned for 2024. With the funding facility via the FMS standing at EUR 60.0 billion, borrowings of EUR 8.0 billion are planned for fiscal year 2024. Factoring in repayments of borrowings that are due, drawdowns from the funding facility will therefore decrease as planned from EUR 55.4 billion as of the 31 December 2023 reporting date to EUR 52.9 billion by the end of 2024. In the following years, the plan is to keep the funding volume via the FMS at the highest level possible.

This means that the proportion of long-term funding in the overall funding volume will remain at a high level. FMS-WM will continue to raise short-term money market funding itself.

So far in fiscal year 2024, there have not been any indications that contradict these forecasts.

Any further escalation of the wars in Ukraine and the Middle East plus an escalation of tensions between the People's Republic of China and the Republic of China (Taiwan) and the associated effects could have a negative impact on the performance of FMS-WM in fiscal year 2024.

Opportunities for future development

In addition to the opportunities arising from a positive development in the markets relevant to FMS-WM and the resulting chances for accelerated profitable portfolio wind-up, opportunities and risks for FMS-WM may also arise from strategic projects.

FMS-WM continued to work on achieving its medium-term objectives in fiscal year 2023. Despite all the macroeconomic headwinds, good progress was made with the planned unwinding of the portfolio. FMS-WM assesses the general market outlook for 2024 as cautiously positive due to the stable fundamentals of some of the economies that are significant for its operations. FMS-WM will continue to work on the profitable unwinding and realisation of its risk positions in 2024, implementing in parallel measures to optimise its organization structure and processes. In spite of the challenges described, FMS-WM plans to implement its objectives on schedule and will continue to monitor market developments closely. Should it become necessary at a later stage to restrict the implementation of these objectives because of a sustained deterioration in the macroeconomic situation due for example to geopolitical developments or to a lack of liquidity in the relevant markets, planned wind-up measures or measures designed to optimise the organization structure and processes could be implemented later than planned.

The implementation of the medium-term objectives is intended to ensure high-quality, operationally stable and efficient portfolio management going forward, while taking into account the current environment and future challenges, and create more scope for portfolio management to be transferred to third parties insofar as this is economically worthwhile.

FMS-WM has been working together with FMS-SG since the second half of 2023 to evaluate the strategic options available to a future organisational and operational structure. In the process, various possible models of collaboration in the form of outsourcing arrangements and optimised in-house management are undergoing structured analysis and, if economically advantageous, are being underpinned with more detailed measures that will then be implemented over the coming years.

INTERNAL CONTROL / RISK MANAGEMENT SYSTEM RELEVANT TO THE FINANCIAL REPORTING PROCESS

The internal control and risk management system relevant to the financial reporting process (ICS/RMS) and focused on business-critical processes of FMS-WM serves to ensure compliance particularly with financial reporting standards and requirements and the reliability of the accounting.

Responsibility for the ICS rests with the central ICS entity in the IT, Sourcing & Operations unit, Which is part of the CEO division.

Accounting (Finance & Tax department) is assigned to the CEO division and managed by the Head of Finance & Planning.

FMS-WM has outsourced material aspects of its accounting, with its subsidiary FMS-SG essentially handling portfolio management, general ledger and subledger accounting including financial accounting, master data management, payment transaction handling, and regulatory reports and annual financial statement preparation.

In addition to services directly related to accounting, IT services were also outsourced; these are also relevant to the ICS. IT services are monitored by the Servicer Steering & IT Planning department in the IT, Sourcing & Operations unit.

FMS-WM's departments manage and supervise the outsourced services by applying the criteria defined in service level agreements. The Finance & Tax department manages outsourced activities related more specifically to accounting.

In addition to its responsibilities for monitoring and managing outsourced services, FMS-WM is also the ultimate authority for the following methods and decisions related to the financial reporting process:

- Making decisions on recognition, measurement and disclosure options
- Preparing certain booking instructions, e. g. for valuations, provisions and the recognition of taxes

An interdepartmental NPP managed by the Servicer Steering & IT Planning department, which is part of the CEO division, ensures the correct mapping of products and product enhancement not yet existing.

The basic task of FMS-WM's ICS is to fulfil the following material principles:

- Safeguarding the effectiveness and efficiency of operations
- Propriety and reliability of internal and external accounting
- Compliance with legal requirements with relevance for FMS-WM

Based on customary market standards, the principal objectives for the ICS at FMS-WM were specified as follows:

- Increase transparency and reliability of management-related information for effective and efficient management
- Protect the business assets by reducing the potential for fraud
- Increase process reliability and /or reduce the likelihood of errors in the processes
- Create the possibility to be able to point out opportunities and undesirable developments more quickly
- Ensure compliance with internal and external regulations

The planning and design of operational control procedures for the ICS takes into account FMS-WM's internal business policy objectives and principles. To this end, individual control objectives that are derived from the overall objectives are defined for the planned control procedures. These accounting-related control objectives affect the statements and disclosures in the annual financial statements as to completeness, recognition, accuracy, measurement, presentation and compliance with the accrual basis of accounting.

The ICS framework at FMS-WM governs the specifics of the principles of the ICS for FMS-WM.

Overall responsibility for the internal control system of FMS-WM lies with the FMS-WM Executive Board.

The central ICS entity makes sure that the ICS framework is firmly integrated in the units of FMS-WM and FMS-SG. It handles the centralised management of the ICS database, the coordination of the annual standard ICS procedure, and the consolidation of the ICS control confirmation into a high-level ICS report. To ensure the effectiveness of the FMS-WM and FMS-SG ICS, the ICS framework is regularly reviewed for compliance with legal provisions and industry standards, and updated as appropriate.

The relevant unit heads are responsible for identifying the controls required, implementing an appropriate control system in relation to the risks relevant to accounting and business-critical risks, and monitoring performance of the controls. The identified control owner is responsible for defining and performing the relevant ICS controls.

Process-independent audits are also utilised by Internal Auditing to assess the effectiveness and suitability of the FMS-WM ICS.

As part of the annual ICS control process carried out by the central ICS entity, the existing controls are validated in the context of Group-wide service performance processes. This validation is carried out by the relevant unit heads and control owners, and takes into account the results of the annual ORSA conducted by the Risk Controlling department as well as the findings of internal and external audits.

For fiscal year 2023, the establishment of the ICS and proper performance of the controls were confirmed in an ICS Control Attestation by the relevant unit heads at FMS-WM and the department heads and managing directors of FMS-SG.

Reporting on outsourced IT services was prepared pursuant to ISAE 3402 where contractually agreed. Furthermore, FMS-WM has performed additional IT controls relating to the IT services as needed.

ANNUAL FINANCIAL STATEMENTS

BALANCE SHEET FOR THE FISCAL YEAR ENDED ON 31 DECEMBER 2023

of FMS Wertmanagement

Assets	in EUR thousand	in EUR thousand	31.12.2023 in EUR thousand	31.12.2022 in EUR thousand
1. **Cash reserve**				
Balances with central banks Including: with Deutsche Bundesbank EUR 0 thousand (previous year: EUR 8,761,110 thousand)		0		8,761,110
			0	**8,761,110**
2. **Loans and advances to banks**				
a) Payable on demand		18,293,627		15,875,470
b) Other loans and advances		3,069,560		2,093,250
			21,363,187	**17,968,720**
3. **Loans and advances to customers** Including: secured by mortgages EUR 271,168 thousand (previous year: EUR 268,153 thousand) Public-sector loans EUR 3,544,110 thousand (previous year: EUR 3,898,885 thousand)			11,827,779	**14,636,228**
4. **Debt instruments**				
a) Bonds and notes				
aa) Public-sector issuers Including: eligible as collateral for Deutsche Bundesbank advances EUR 12,416,445 thousand (previous year: EUR 12,528,040 thousand)	17,728,679			19,605,551
ab) Other issuers Including: eligible as collateral for Deutsche Bundesbank advances EUR 752,096 thousand (previous year: EUR 714,674 thousand)	25,328,946	43,057,625		27,396,348 47,001,899
b) Own debt instruments		9,012,052		5,003,207
Principal amount EUR 9,000,000 thousand (previous year: EUR 5,000,000 thousand)			52,069,677	**52,005,106**
5. **Other long-term equity investments** Including: in banks EUR 0 thousand (previous year: EUR 0 thousand) in financial services institutions EUR 0 thousand (previous year: EUR 0 thousand)			3	3
6. **Shares in affiliated companies** Including: in banks EUR 0 thousand (previous year: EUR 0 thousand) in financial services institutions EUR 0 thousand (previous year: EUR 0 thousand)			10,000	30,000
7. **Intangible fixed assets**			221	250
Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets				
8. **Tangible fixed assets**			20	24
9. **Other assets**			530,027	1,030,129
10. **Prepaid expenses**			2,570,895	4,532,371
Total assets			**88,371,809**	**98,963,941**

Equity and liabilities		in EUR thousand	31.12.2023 in EUR thousand	31.12.2022 in EUR thousand
1. Liabilities to banks				
a) Payable on demand		357,226		341,544
b) With agreed maturity or notice period		1,310,137		1,302,023
			1,667,363	1,643,567
2. Liabilities to customers				
Other liabilities				
a) Payable on demand		43,442		48,306
b) With agreed maturity or notice period		57,992,850		60,903,931
			58,036,292	60,952,237
3. Securitised liabilities				
a) Debt instruments issued		12,890,033		14,407,415
b) Other securitised liabilities Including: commercial paper EUR 4,668,203 thousand (previous year: EUR 8,931,094 thousand)		4,668,203		8,931,094
			17,558,236	23,338,509
4. Other liabilities			296,000	306,661
5. Deferred income			8,486,196	10,642,277
6. Provisions				
a) Provision for taxes		5,014		8,749
b) Other provisions		169,220		203,946
			174,234	212,695
7. Fund for general banking risks			250,000	0
8. Equity				
a) Subscribed capital		200		200
b) Capital reserves		1,800		1,800
c) Retained earnings				
Other retained earnings		1,865,995		1,815,554
d) Net retained profits		35,493		50,441
			1,903,488	1,867,995
Total equity and liabilities			**88,371,809**	**98,963,941**
1. Contingent liabilities				
Contingent liabilities from guarantees and indemnity agreements			234,705	238,542
2. Other obligations				
Irrevocable loan commitments			51,861	45,648

INCOME STATEMENT

of FMS Wertmanagement for the period from 1 January until 31 December 2023

Income statement	in EUR thousand	in EUR thousand	01.01.– 31.12.2023 in EUR thousand	01.01.– 31.12.2022 in EUR thousand
1. Interest income from				
a) Lending and money market transactions Including: negative interest deducted EUR 62 thousand (previous year: EUR 250.088 thousand)	7,697,739			3,918,928
b) Fixed-income securities and registered government debt	1,963,664			1,499,000
		9,661,403		5,417,928
2. Interest expenses Including: positive interest deducted EUR 826 thousand (previous year: EUR 220.162 thousand)		–9,133,730		–5,026,843
			527,673	391,085
3. Current income from				
Shares in affiliated companies			0	10
4. Income from profit pooling, profit transfer or partial profit transfer agreements			72	2,848
5. Commission income		4,146		6,857
6. Commission expenses		–16,469		–20,732
			–12,323	–13,875
7. Other operating income			7,265	9,106
8. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	–16,071			–14,162
ab) Social security, post-employment and other employee benefit costs Including: in respect of post-employment benefits EUR –100 thousand (previous year: EUR –100 thousand)	–1,603	–17,674		–1,538 –15,700
b) Other administrative expenses		–84,186		–113,665
			–101,860	–129,365
9. Depreciation, amortisation and write-downs of intangible and tangible fixed assets			–34	–39
10. Other operating expenses			–3,017	–1,220
11. Write-downs of and valuation allowances on receivables and certain securities, and additions to loan loss provisions Including: Expenses from additions to the fund for general banking risks EUR –250.000 thousand (previous year: EUR 0 thousand)			–409,295	–213,828
12. Income from reversals of write-downs of shares in affiliated companies, other long-term equity investments and securities classified as fixed assets			87,560	31,969
13. Result from ordinary activities			96,041	76,691
14. Taxes on income			–60,548	–26,249
15. Other taxes not included in “10. Other operating expenses”			0	–1
16. Net income for the year			35,493	50,441
17. Net retained profits			35,493	50,441

CASH FLOW STATEMENT

of FMS Wertmanagement for the period from 1 January until 31 December 2023

Cash flow statement			01.01.– 31.12.2023 in EUR thousand	01.01.– 31.12.2022 in EUR thousand
1.		Net income / loss for the period	35,493	50,441
		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	364,098	162,216
3.	+/–	Increase / decrease in provisions	–34,726	–28,722
4.	+/–	Other non-cash expenses / income	–2,288	–3,864
5.	–/+	Gain / loss on disposal of fixed assets	–5	–8
6.	–/+	Other adjustments (net)	–72	–2,848
7.	–/+	Increase / decrease in loans and advances to banks	–2,302,099	20,749,927
8.	–/+	Increase / decrease in loans and advances to customers	2,807,072	–4,350,521
9.	–/+	Increase / decrease in securities	3,426,359	3,482,468
10.	–/+	Increase / decrease in other assets relating to operating activities	1,947,313	5,307,305
11.	+/–	Increase / decrease in liabilities to banks	20,181	63,296
12.	+/–	Increase / decrease in liabilities to customers	–2,915,889	4,570,928
13.	+/–	Increase / decrease in securitised liabilities	–9,726,060	–26,132,079
14.	+/–	Increase / decrease in other liabilities relating to operating activities	–1,270,998	–4,473,836
15.	+/–	Interest expense / interest income	–527,673	–391,085
16.	+/–	Income tax expense / income	60,548	26,249
17.	+	Interest and dividend payments received	8,874,108	4,775,673
18.	–	Interest paid	–8,377,791	–4,428,565
19.	–/+	Income taxes paid	–84,915	–2,784
20.	=	**Cash flows from operating activities**	**–7,707,344**	**–625,809**
21.	+	Proceeds from disposal of long-term financial assets	20,000	417
22.	–	Payments to acquire long-term financial assets	0	0
23.	+	Proceeds from disposal of tangible fixed assets	5	8
24.	–	Payments to acquire tangible fixed assets	–1	–14
25.	+	Proceeds from disposal of intangible fixed assets	0	0
26.	–	Payments to acquire intangible fixed assets	0	0
27.	=	**Cash flows from investing activities**	**20,004**	**411**
28.	=	**Cash flows from financing activities**	**0**	**0**
29.		Net change in cash funds	–7,687,340	–625,398
30.	+/–	Effect on cash funds due to exchange rate movements and remeasurements	–1,685	40,764
31.	+	Cash funds at beginning of period	8,830,282	9,414,916
32.	=	**Cash funds at end of period**	**1,141,257**	**8,830,282**

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, and, in the previous year, balances with Deutsche Bundesbank.

STATEMENT OF CHANGES IN EQUITY

Statement of changes in equity for the period from 1 January until 31 December 2023

	Balance at 01.01.2023 in EUR thousand	Appropriation of net income / loss in EUR thousand	Net income for the year in EUR thousand	Balance at 31.12.2023 in EUR thousand
Subscribed capital	200	0	0	200
Capital reserves	1,800	0	0	1,800
Other retained earnings	1,815,554	50,441	0	1,865,995
Net retained profits	50,441	–50,441	35,493	35,493
Equity as defined by German commercial law	**1,867,995**	**0**	**35,493**	**1,903,488**

Net retained profits from the 2022 fiscal year were transferred to retained earnings based on a resolution adopted by the Supervisory Board of FMS Wertmanagement AöR on 27 March 2023.

Statement of changes in equity for the period from 1 January until 31 December 2022

	Balance at 01.01.2022 in EUR thousand	Appropriation of net income / loss in EUR thousand	Net income for the year in EUR thousand	Balance at 31.12.2022 in EUR thousand
Subscribed capital	200	0	0	200
Capital reserves	1,800	0	0	1,800
Other retained earnings	1,771,707	43,847	0	1,815,554
Net retained profits	43,847	–43,847	50,441	50,441
Equity as defined by German commercial law	**1,817,554**	**0**	**50,441**	**1,867,995**

NOTES

GENERAL INFORMATION

Legal framework

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

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

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

In 2012, FMS-WM established its own service entity, FMS Wertmanagement Service GmbH, Unterschleißheim (FMS-SG), which assumed responsibility for portfolio servicing and the provision of all material services associated with it effective 1 October 2013. FMS-WM has final decision-making powers and ultimate responsibility for the risk positions under management. The master agreement governing the outsourcing of business processes and services grants FMS-WM extensive rights to obtain information and perform inspections, enabling the latter to monitor and control the servicing of the risk positions by FMS-SG. FMS-SG operated from two sites in fiscal year 2023 (Unterschleißheim and Dublin). Operations in New York site were discontinued at the end of 2022 and activities were transferred to the remaining FMS-SG sites. The New York office was completely closed in July 2023.

The following companies were contracted for performing the necessary IT services: Fujitsu Technology Solutions GmbH, Munich (Fujitsu Technology), IBM Deutschland GmbH, Ehningen (IBM Deutschland) and CGI Deutschland BV & Co. KG, Leinfelden-Echterdingen (CGI Deutschland).

Accounting principles

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

Since FMS-WM is a capital market oriented organisation as defined by Section 264d HGB, it has expanded its annual financial statements to include a statement of changes in equity and a cash flow statement in accordance with Section 264 (1) Sentence 2 HGB. A management report has also been prepared. Under Section 8a StFG and the supplementary provisions of the Charter, FMS-WM is not required to prepare consolidated financial statements.

Accounting policies

Assets, liabilities as well as prepaid expenses and deferred income are recognised in accordance with the principles laid out in Section 246 ff. HGB. Assets, liabilities and executory contracts are measured based on the principles of Section 252 ff. HGB. For recognition and measurement, FMS-WM also applies the supplementary provisions for credit institutions set out in Sections 340 ff. HGB. This includes the option to recognise a contingency reserve for general banking risks in accordance with Section 340f HGB and a special reserve for general banking risks in accordance with Section 340g HGB. Pursuant to Section 2 (1) RechKredV, FMS-WM used Form 1 to structure the balance sheet and Form 3 (vertical presentation format) for the income statement.

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

Those book values were used if the assets were transferred to FMS-WM under so-called "concentration agreements". If the transferor prepares its accounting pursuant to the International Financial Reporting Standards (IFRS), the IFRS book value corresponds to FMS-WM's acquisition cost. The IFRS book value contains hedge adjustments for loans, advances and securities that were reported in micro valuation units; the hedge adjustments related to securities are reported under the item, Debt instruments, and those for loans under prepaid expenses and deferred income. The hedge adjustments for loans or securities are generally contrasted by the market value of the hedging derivatives transferred. The payments that FMS-WM has received or made for the hedging derivatives are shown under prepaid expenses and deferred income. The hedge adjustments and the recognised items for accrued payments related to derivatives are amortised regularly over the remaining terms to maturity of the corresponding transactions. Expenses and income from such amortisation are reported under interest expense or interest income. Amortisation of deferred items and current premium payments on credit default swaps (CDS) are reported under the items, Commission expenses or Commission income.

The fact that the transferring entity's book value represents the transfer price was to be taken into account as part of the acquisition process. Consequently, the risk provisions recognised by the transferring entity were to be taken into account in the determination of the transfer price. The transfer price in turn represented FMS-WM's acquisition costs.

Loans and advances to banks and loans and advances to customers are generally carried at their nominal value less risk provision as specific and general loan loss provisions. Differences between the nominal value and the acquisition cost, which are similar in nature to interest, are accounted for in prepaid expenses and deferred income and recognised in profit or loss under net interest income on a pro-rata basis over the term of the receivable. The proportionate interest calculated at the reporting date is recognised together with the underlying receivable.

On the basis of proposals by FMS-SG, analyses by expert third parties and analyses by FMS-WM itself, *specific loan loss provisions and provisions* are recognised for individual risks that have arisen in the lending business; these provisions take into account both the specific counterparty default risk and, if unwinding measures are sufficiently specific, the conditions on the sales market as well. Expected future proceeds from the realisation of collateral are discounted over the realisation period as necessary using a market interest rate with matching maturities.

Since 1 January 2022, FMS-WM has been applying the requirements of IDW statement IDW RS BFA 7 for the purposes of calculating the general loan loss provision. As a rule, the general loan loss provision for loans and advances to customers and banks as well as for contingent liabilities and other obligations is calculated on the basis of the expected loss over the remaining term of the exposures. This is calculated on a case-by-case basis for each year through to maturity, taking into account the probability of default, exposure at default and expected recovery rate in the event of default, and discounted to the reporting date using risk-free interest rates. Credit-rating premiums are not taken into account here. If, in the case of receivables, a contractual arrangement allows FMS-WM to adjust the terms in line with the risk during the term to maturity and this adjustment will be made as expected, in accordance with the objective set out in the Charter of unwinding the portfolio in a profit-oriented way, the calculation uses a shorter term over which FMS-WM is exposed to counterparty default risk rather than the contractually agreed term. The modelling of one-year and multi-year probabilities of default required for calculating the general loan loss provision was regularly reviewed and adjusted during fiscal year 2023. This included calibrating the one-year and multi-year probabilities of default on the basis of external default rate time series. For maturities between two and five years, the probabilities of default were adjusted based on expert opinions. Current macroeconomic uncertainties were factored in, and the probabilities of default for shorter maturities were aligned with the long-term average. This reduced the general loan loss provision by EUR 0.4 million. In addition, the accounting treatment of country and company ratings was standardised at the end of 2023 by calibrating the rating classes to a uniform master scale, increasing the general loan loss provision by EUR 3.6 million.

Collective country risk provisions are additionally recognised for exposures subject to discernible country risks. They are recognised in accordance with the methods required under German tax law. The countries to be included and the amount of the risk provisions are determined on the basis of external country ratings that reflect current and expected economic data as well as the overall political situation in the countries in question.

Debt instruments, excluding own issues bought back, are allocated to fixed assets (financial assets) because they are permanently used for operations. Debt instruments are measured at amortised cost in accordance with Section 253 (1) and (3) HGB. If FMS-WM believes that the assets are permanently impaired, impairment losses are charged in accordance with Section 340e (1) Sentence 1 in conjunction with Sentence 2 HGB. The existence of permanent impairment is determined in the case in question on the basis of information supplied by FMS-SG, commissioned expert third parties and through FMS-WM own investigations. The test of whether there is permanent impairment is generally conducted similar to the test for impairment of loan receivables, except that market values representing an additional trigger in the test for impairment of wind-up clusters with a high percentage of securities traded on liquid markets are to be taken into account.

In case of a sufficiently concrete intention not to hold specific securities to maturity, these securities will no longer be recognised as continuously used for operations. They will be measured in line with the strict lower-of-cost-or-market principle. If a full reversal of valuation measures is not expected for these securities by the end of their holding period, a write-down to the lower fair value will be recognised.

When the reasons for permanent impairment no longer apply, write-ups are charged in accordance with Section 253 (5) Sentence 1 HGB up to a maximum of the amortised cost.

Own debt instruments bought back are allocated to current assets (liquidity reserve). They are measured in accordance with the strict lower-of-cost-or-market principle in accordance with Section 253 (4) HGB.

The fair values of securities and derivatives are determined either based on external rate sources (e. g. via stock exchanges or other providers such as Reuters) or based on market value derived from internal measurement models (mark to model). Fair values of securities are largely determined on the basis of securities prices obtained from external sources. Derivatives are largely measured using specific measurement models, whereby the counterparty risk in the case of unsecured OTC derivatives is taken into account when determining any provisions for expected losses for hedge inefficiencies or for stand-alone derivatives. The estimation techniques used to determine any excess obligation in connection with hedge inefficiencies and stand-alone derivatives (standard measurement models such as the discounted cash flow method) factor in market data relevant to the measurement (in particular yield curves and exchange rates) as at the reporting date, the counterparties' potential probability of default and any collateral. The excess obligations determined in this way are accounted for in the form of provisions for expected losses.

In the measurement of secured and unsecured derivatives, future cash flows are discounted on the basis of risk-free interest rates.

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

- If an (indicative) market price (quote) is available for a liquid market, it is used.
- If a market price is not available or the market is not sufficiently liquid, the measurement is converted to a proxy measurement based on the available market prices for similar securities.
- If an appropriate proxy security cannot be identified, the measurement is carried out using the benchmark spreads or estimated spreads determined by FMS-SG's experts.
- Securities not measured based on market prices, proxies, or spreads (e. g. structured inflation-linked bonds) are measured based on financial mathematical models.

The parameters for internal valuation models (e. g. interest rate curves, volatilities, spreads) are mostly derived from external sources and reviewed by Risk Controlling as to their plausibility and accuracy. The models used for measuring structured derivatives are initially calibrated on the basis of market data, with the subsequent valuation being based on the resulting model parameters.

Differences that stem from the reporting of securities classified as fixed assets above their fair value based on application of the moderate lower-of-cost-or-market principle are shown separately in the notes when presenting debt instruments.

FMS-WM holds positions in asset-backed securities. These structured financial instruments are not required to be separated; they are each carried as a single asset and in compliance with IDW RS HFA 22.

Securities repurchase agreements are recognised in accordance with the provisions of Section 340b HGB. The securities sold under genuine repurchase agreements are still reported in the balance sheet of FMS-WM. Depending on the transferee, the obligation to repurchase securities sold under repurchase agreements is presented under the balance sheet items, Liabilities to banks, or Liabilities to customers. If securities repurchase agreements were entered into (as buyer) to place excess liquidity on the money market, the resulting receivables are recognised under the balance sheet items, Loans and advances to banks, or Loans and advances to customers, depending on the transferor. The specific securities are not reported in FMS-WM's balance sheet due to the lack of beneficial ownership.

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 on a straight-line basis. 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 on a straight-line basis. The useful life is determined based on factors expected to limit the longevity of the intangible assets.

For the sake of simplicity and in compliance with the tax regulations, since 1 January 2019 assets costing EUR 800.00 or less before VAT have been written down in full in the year of acquisition.

Deferred tax assets and deferred tax liabilities are initially calculated as at 31 December 2023 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 29.55%. 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 2023 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 control and profit-and-loss transfer agreement dated 16 October 2012, there is a consolidated VAT, corporate income tax and trade tax group with FMS-SG. Consequently, the German tax obligations of FMS-SG are considered in FMS-WM's annual financial statements.

Prepaid expenses include:

- Expenditures prior to the reporting date where these concern expenses in a certain period of time after the reporting date
- Deferrals (discounts) in connection with the funding business
- Deferrals in connection with derivative products. This primarily concerns payments made by FMS-WM for entering into derivatives (positive market values)
- Payments made to compensate for the difference between ESTR and EONIA upon the change of interest rate on EUR-denominated cash collateral and the interest rate benchmarks for collateralised derivatives
- Deferrals of positive differences between the nominal value of receivables and the acquisition costs, which are similar in nature to interest

Prepaid expenses are generally amortised on a pro rata basis. To the extent that prepaid expenses were deferred for payments made in connection with the takeover of derivatives and there are serious doubts regarding the derivatives' validity or the recoverability of the payments from these derivatives, these components of prepaid expenses are derecognised through profit or loss.

Liabilities are carried at their settlement amount. Differences between the issue amount and the settlement amount of the liabilities are posted to deferred income or prepaid expenses and released through profit and loss on a pro rata basis.

Provisions for uncertain liabilities and provisions for expected losses from executory contracts are recognised at the settlement amount dictated by prudent business judgement. This includes factoring in expected losses from sufficiently concrete measures to unwind relevant exposures. Provisions with a remaining maturity of more than one year are generally discounted in accordance with Section 253 (2) HGB using the average market interest rate of the past seven fiscal years corresponding to their remaining maturity. The applicable interest rates are published by Deutsche Bundesbank. Provisions for expected losses from executory contracts (derivatives) were recognised in the amount of the existing excess of expected obligations over expected benefits. Financial mathematical valuation models are applied to determine the excess obligation especially with regard to derivatives that have a complex structure.

Regardless of future developments, if a fixed excess obligation exists in the relevant market risk factors for a derivative, this is not recognised as a provision for expected losses but instead in other liabilities.

Deferred income includes:

- Proceeds received prior to the reporting date where these concern income in a certain period of time after the reporting date
- Deferrals (premiums) in connection with the funding business
- Deferrals in connection with derivative products. This primarily concerns payments received by FMS-WM for entering into derivatives (negative market values)
- Payments received to compensate for the difference between ESTR and EONIA upon the change of interest rate on EUR-denominated cash collateral for collateralised derivatives
- Deferrals in connection with the lending business (discounts on receivables)

Deferred income is generally amortised on a pro rata basis.

Derivative financial instruments are entered into to hedge interest rate risk in individual hedged items, to manage general interest rate risk and to hedge inflation, credit and currency risks. The derivative financial instruments held in the portfolio are allocated to the non-trading portfolio.

- Derivative financial instruments serving to *hedge the market risks (basically interest rate risks) of individual hedged items* are designated into micro valuation units along with the hedged items in accordance with Section 254 HGB.
- Derivative financial instruments that are used to *manage the general interest rate risk* are aggregated into an offsetting item with the other transactions in the banking book (securities and loans) that are interest-based and regarded as non interest-induced as well as the interest-based financial instruments serving funding purposes. Prevailing opinion holds that this is not a valuation unit under Section 254 HGB but an accounting practice.

- Derivatives such as CDS are used to *hedge credit risks*. These derivatives are not aggregated with other hedged items in valuation units and are measured in accordance with the general principles of commercial law (in accordance with IDW RS BFA 1).
- Derivative financial instruments such as currency and cross currency interest rate swaps are used in connection with the *management of foreign currency positions* to close open risk positions.

Consistent with the specifications of risk management, documented hedging relationships are entered into at the transaction level (micro valuation units) to hedge market risks. The term of the hedged item is used as the time horizon. Hedged items may include acquired or issued securities, loan receivables or loan liabilities, and derivatives. FMS-WM recognises these hedging relationships using the net hedge presentation method ("Einfrierungsmethode") in accordance with Section 254 HGB. Where the offsetting changes in value resulting from the hedged risk (especially interest rate risk) are compensated, the changes in value in the hedged item or in the hedge are not recognised. In an existing excess obligation, the ineffective portion of the hedging relationship's hedged risk is recognised as an expense in accordance with the imparity principle pursuant to IDW RS HFA 35 through the recognition of a provision for expected losses. The ineffective portion is computed by comparing the change in value from the hedged risk of the hedged item with the change in value from the hedged risk of the hedging instrument. Excess obligations for unhedged risks are treated in accordance with general accounting policies, taking into account the item-by-item measurement principle. Expenses from additions to provisions for expected losses are shown in the net revaluation gain / loss for the lending and securities business.

All hedging relationships are tested for effectiveness. The prospective effectiveness of the hedging relationships is examined primarily on the basis of linear regression or using the critical terms match method.

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

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

In accordance with IDW RH FAB 1.020, a change in an interest rate benchmark due to the EU Benchmarks Regulation does not result in the derecognition of a floating rate financial instrument. A valuation unit continues to exist – as a single unit of account in accordance with IDW RS HFA 35 – despite the change in the interest rate benchmark. Compensation payments resulting from changes in interest rate benchmarks are recognised outside profit or loss as also prepaid expenses and deferred income.

FMS-WM holds financial instruments subject to USD-LIBOR benchmark interest rates that ceased to be quoted in mid-fiscal year 2023. No significant adjustments were made to the measurement of these financial instruments due to FMS-WM's assent to the supplementary agreements to national and international master agreements and the resulting contractually agreed successor regulation, which provides for an appropriate spread adjustment on benchmark interest rates.

Any transfers of derivatives positions from counterparties based in the United Kingdom to EU entities upon the United Kingdom's withdrawal from the EU are recognised outside profit or loss.

Contingent liabilities are disclosed at the amount of the maximum liability, which is generally calculated as the nominal amount less amortised cost and risk provisions. In duly justified individual cases, a value other than the nominal value may be used for the maximum risk of liability, depending on the reference exposure.

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 29 December 2023 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 contain features for the exchange of principal (nominal exchange agreement), payments received or payments yet to be made are recognised in other liabilities. Payments made or payments yet to be received are reported in other assets.

Expenses and income were translated into euros at the exchange rate on the transaction date. Expenses and income arising from the currency translation are presented net under other operating expenses or other operating income.

Interest income and interest expense for derivative financial instruments entered into are presented gross, i. e. not netted, in the income statement.

Negative interest is shown in the income statement in accordance with the transaction underlying the agreement of negative interest: Negative interest contractually agreed for assets reduces interest income, whereas negative interest contractually agreed for liabilities reduces interest expense. For the negative interest thus deducted from interest income and interest expense, an "Of which" item was in each case added to Form 3 provided by the RechKredV and used for the presentation of the income statement ("Of which negative / positive interest deducted").

FMS-WM avails itself of the option under Section 340f (3) HGB. Accordingly, income and expenses from the measurement of loans, advances and securities allocated to the liquidity reserve may be shown in a single item after offsetting against income and expenses from the measurement and disposal of such transactions. This also includes additions to or releases of loan loss provisions.

FMS-WM avails itself of the option under Section 340c (2) HGB. Accordingly, expenses from write-downs on long-term equity investments, shares in affiliated companies and securities classified as fixed assets may be offset against the income from additions to such assets and shown in a single expense and income item. Under Section 340c HGB, the expenses and income from transactions involving such assets may also be included. FMS-WM also reports the profit / loss from the sale of securities as well as the profit / loss from the termination of related derivatives transactions in this item.

NOTES TO THE BALANCE SHEET

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

Assets

Cash reserve

The cash reserve had a zero balance as at 31 December 2023 (31 December 2022: EUR 8,761 million). This drop was precipitated by the adjustment of the interest rate on the government balances held with the Bundesbank to 0% p.a. as at 1 October 2023. As a consequence, the liquid assets of FMS-WM were invested in the form of securities repurchase agreements and current bank accounts in the fourth quarter of the fiscal year.

Loans and advances to banks

	31.12.2023 in EUR million	31.12.2022 in EUR million
a) Payable on demand	18,294	15,876
b) Other loans and advances	3,069	2,093
Total	**21,363**	**17,969**
Including: to affiliated companies	0	0
Including: to other long-term equity investments	0	0

Receivables payable on demand mainly comprise receivables from cash collateral required to be provided for financial derivatives and, to a lesser extent, receivables from current bank accounts. The rise in loans and advances to banks payable on demand is attributable to the increase in the fair value of cash collateral required to be provided for financial derivatives, in addition to the above-mentioned increase in receivables from current bank accounts.

Other receivables comprise receivables from completed repo transactions of EUR 1,452 million (FMS-WM as buyer) (31 December 2022: zero balance) and receivables from public-sector loans of EUR 675 million (31 December 2022: EUR 671 million).

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

	31.12.2023 in EUR million	31.12.2022 in EUR million
Up to three months	1,450	600
More than three months and up to one year	760	652
More than one year and up to five years	669	0
More than five years	190	841
Total	**3,069**	**2,093**

Other loans and advances to banks with a remaining maturity of up to three months resulted from the new repo transactions concluded in the fiscal year; in the previous year, this maturity range had still contained time deposits that were reversed during the fiscal year. Receivables from public-sector loans reported in the previous year in the “more than five years” maturity range will become due within the next five years as at the reporting date of 31 December 2023, which is why they have been moved up to the “more than one year and up to five years” maturity range.

Loans and advances to customers

	31.12.2023 in EUR million	31.12.2022 in EUR million
Total	11,828	14,636
Including: to affiliated companies	0	0
Including: to other long-term equity investments	0	0

The decrease in loans and advances to customers mainly results from the decrease in cash collateral payable on demand that was required to be provided for financial derivatives as a result of derivatives clearing with the Federal Republic of Germany, represented by Bundesrepublik Deutschland – Finanzagentur GmbH, Frankfurt am Main. Loans and advances to customers as at 31 December 2023 amount to EUR 5,417 million (31 December 2022: EUR 6,836 million).

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

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

	31.12.2023 in EUR million	31.12.2022 in EUR million
Payable on demand	5,418	6,836
Up to three months	17	152
More than three months and up to one year	898	599
More than one year and up to five years	673	1,194
More than five years	4,822	5,855
Total	11,828	14,636

The reduction in loans in the portfolio is mainly responsible for the decline in maturity ranges with a remaining term of more than one year.

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:

	31.12.2023 in EUR million	31.12.2022 in EUR million
Book value	52,070	52,005
Of which: public-sector issuers	17,729	19,606
Of which: other issuers	25,329	27,396
Of which: own debt instruments	9,012	5,003
Marketable securities	52,070	52,005
Of which: listed	46,016	45,236
Of which: not listed	6,054	6,769
Securities due in the following year	5,315	3,449
Securities issued by affiliated companies	0	0

Of the marketable securities, securities with a book value of EUR 43,058 million (31 December 2022: EUR 47,002 million) are held as fixed assets. The decline in the reporting period is due to the scheduled repayment, maturity and sale of securities from the portfolio being wound up as well as to portfolio-reducing currency effects.

In addition, the marketable securities include own debt instruments with a book value of EUR 9,012 million (31 December 2022: EUR 5,003 million), which are measured using the strict lower-of-cost-or-market principle because they are treated as current assets. The increase is attributable to the buy-back of own debt instruments in fiscal year 2023 to replace the scheduled expiry of own debt instruments at the beginning of fiscal year 2024 in the amount of EUR 4.0 billion.

The deferred write-downs on debt instruments total EUR 1,950 million based on their fair values as at 31 December 2023 (31 December 2022: EUR 2,744 million). This comprises debt instruments with book values of EUR 25,152 million (31 December 2022: EUR 32,570 million) and fair values of EUR 23,202 million (31 December 2022: EUR 29,826 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.

in EUR million	Of which: public-sector issuers	Other issuers: Of which: banks	Other issuers: Of which: other issuers	Total 31.12.2023	Total 31.12.2022
Book value	17,729	1,106	24,223	43,058	47,002
Fair value	18,621	1,161	25,701	45,483	47,705
Hidden reserves	1,698	97	2,580	4,375	3,447
Hidden losses (deferred write-downs)	806	42	1,102	1,950	2,744

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

Shares in affiliated companies and other long-term equity investments

None of the other long-term equity investments and shares in affiliated companies held by FMS-WM are marketable. The shares in affiliated companies shown relate to FMS-SG. FMS-SG implemented a capital reduction of EUR 20 million in fiscal year 2023.

Statement of changes in fixed assets

	Cost			Depreciation / amortisation / write-downs				Book value	
in EUR million	Balance 01.01.2023	Additions 2023	Disposals 2023	Cumulative 01.01.2023	Current year 2023	Disposals 2023	Cumulative 31.12.2023	Balance 31.12.2023	Balance 31.12.2022
Intangible fixed assets	4.8	0.0	0.0	4.5	0.1	0.0	4.6	0.2	0.3
Tangible fixed assets	1.6	0.0	0.0	1.6	0.0	0.0	1.6	0.0	0.0
Shares in affiliated companies and other long-term equity investments	30			–20[1]				10	30
Bonds and notes	47,002			–3,944[1]				43,058	47,002

[1] *The option to combine items in accordance with Section 34 (3) RechKredV was used*

The intangible assets solely concern software licenses purchased for consideration.

The tangible fixed assets solely comprise operating and office equipment.

Regarding shares in affiliated companies and other long-term equity investments, and bonds and notes, please refer to the two sections above.

Other assets

Other assets in the amount of EUR 530 million (31 December 2022: EUR 1,030 million) mainly include currency translation adjustments of EUR 467 million from off-balance sheet transactions denominated in foreign currencies (31 December 2022: EUR 968 million), which are recognised in the context of special coverage under Section 340h HGB, as well as receivables from derivatives in the amount of EUR 52 million (31 December 2022: EUR 54 million).

Prepaid expenses

Prepaid expenses are comprised of the following items:

	31.12.2023 in EUR million	31.12.2022 in EUR million
Unamortised payments made for derivatives	1,567	3,371
Lending business (premium from receivables)	913	1,074
Issuing business / loans taken out (discount, liabilities)	84	81
Other	7	7
Total	**2,571**	**4,533**

The unamortised payments made for derivatives mainly include the unamortised payments that FMS-WM made for the acquisition of interest rate hedging derivatives as part of its funding activities and the wind-up mandate, and when the portfolio was acquired on 1 October 2010. The decline in unamortised payments for derivatives in the fiscal year is due to a reduction of derivatives (EUR 1.2 billion) and ongoing amortisation of deferrals.

Prepaid expenses from lending business result mainly from unamortised payments made by FMS-WM at the transfer date in 2010 for hedge adjustments of the hedged items (receivables) taken over from the transferors. The item also includes unamortised payments made by FMS-WM for loan receivables acquired in connection with the wind-up mandate. The decline in this item in the reporting period is attributable to portfolio wind-up and ongoing amortisation of deferrals.

The increase in prepaid expenses from issuing business / loans taken out is due mainly to discounts associated with the funding obtained through the FMS in the reporting period. Ongoing amortisation of deferrals partially compensated for this.

Subordinated assets

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

	31.12.2023 in EUR million	31.12.2022 in EUR million
Debt instruments (book value)	36	39

Equity and liabilities

Liabilities to banks

	31.12.2023 in EUR million	31.12.2022 in EUR million
a) Payable on demand	357	342
b) With agreed maturity or notice period	1,310	1,302
Total	**1,667**	**1,644**
Including: to affiliated companies	0	0
Including: to other long-term equity investments	0	0

Liabilities payable on demand consist of cash collateral received for financial derivatives.

Liabilities with an agreed maturity or notice period consist mainly of liabilities from accrued interest on derivatives in the amount of EUR 1,265 million (31 December 2022: EUR 1,257 million).

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

	31.12.2023 in EUR million	31.12.2022 in EUR million
Up to three months	0	0
More than three months and up to one year	1,265	1,257
More than one year and up to five years	45	45
More than five years	0	0
Total	**1,310**	**1,302**

Liabilities to customers

	31.12.2023 in EUR million	31.12.2022 in EUR million
a) Payable on demand	44	48
b) With agreed maturity or notice period	57,993	60,904
Total	**58,037**	**60,952**
Including: to affiliated companies	0	0
Including: to other long-term equity investments	0	0

Liabilities with an agreed maturity or notice period consist mainly of funds obtained via the FMS in the amount of EUR 55,508 million (31 December 2022: EUR 59,410 million).

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

	31.12.2023 in EUR million	31.12.2022 in EUR million
Up to three months	500	3,500
More than three months and up to one year	11,482	6,865
More than one year and up to five years	22,955	25,440
More than five years	23,056	25,099
Total	**57,993**	**60,904**

In fiscal year 2023, a total of EUR 6.0 billion in additional funding was obtained through the FMS, of which EUR 3.0 billion fell within the maturity range More than one year and up to five years and EUR 3.0 billion within the maturity range More than five years. In the fiscal year, funds of EUR 10.0 billion obtained through the FMS expired on schedule. In addition, the changes in the presentation of the maturity ranges were mainly due to movements of existing funding obtained through the FMS to other maturity ranges.

Securitised liabilities

	31.12.2023 in EUR million	31.12.2022 in EUR million
a) Debt instruments issued	12,890	14,407
b) Other securitised liabilities	4,668	8,931
Total	**17,558**	**23,338**
Including: to affiliated companies	0	0
Including: to other long-term equity investments	0	0
Amounts due in the following year	11,425	15,406
Including: debt instruments issued	6,757	6,475

Securitised liabilities comprise debt instruments issued in the amount of EUR 12,890 million (31 December 2022: EUR 14,407 million), European commercial paper issued in the amount of EUR 1,969 million (31 December 2022: EUR 8,444 million) and US commercial paper issued in the amount of EUR 2,699 million (31 December 2022: EUR 487 million).

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

	31.12.2023 in EUR million	31.12.2022 in EUR million
Up to three months	3,638	6,026
More than three months and up to one year	1,030	2,905
More than one year and up to five years	0	0
More than five years	0	0
Total	**4,668**	**8,931**

Other liabilities

Other liabilities mainly include liabilities of EUR 276 million from derivatives (31 December 2022: EUR 267 million) and currency translation adjustments of EUR 8 million from executory contracts in foreign currencies (31 December 2022: EUR 7 million), which are recognised in the context of special coverage under Section 340h HGB.

Deferred income

	31.12.2023 in EUR million	31.12.2022 in EUR million
Unamortised payments received for derivatives	7,733	9,614
Issuing business / loans taken out	737	993
Lending business (discount on receivables)	12	31
Other	4	4
Total	**8,486**	**10,642**

The unamortised payments received for derivatives result mainly from payments received by FMS-WM for the market values of derivatives recognised by the transferors as at the transfer date in 2010. The item also contains unamortised payments received by FMS-WM to acquire interest rate derivatives in connection with the wind-up task. The decline in unamortised payments received for derivatives in the fiscal year is due to a reduction of derivatives (EUR 1.1 billion) and ongoing amortisation of deferrals.

The decrease in deferred income from issuing business / loans taken out is due mainly to the ongoing amortisation of premiums associated with the funding obtained through the FMS.

Deferred income from the lending business mainly results from unamortised payments received by FMS-WM at the transfer date in 2010 for hedge adjustments of the hedged items (receivables) taken over from the transferring legal entities. The decrease in the reporting period is mainly attributable to the portfolio wind-up.

Provisions

	31.12.2023 in EUR million	31.12.2022 in EUR million
Provision for taxes	**5**	**9**
Other provisions	**169**	**204**
Including provisions for expected losses	154	183
Total	**174**	**213**

Provisions for expected losses consist mainly of provisions for expected losses for stand-alone derivatives of EUR 76 million (31 December 2022: EUR 84 million) and for valuation unit ineffectiveness under Section 254 HGB of EUR 51 million (31 December 2022: EUR 72 million).

Fund for general banking risks

In the reporting period, EUR 250 million was added to the fund for general banking risks in accordance with Section 340g HGB (31 December 2022: EUR 0 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 235 million (31 December 2022: EUR 239 million). This includes obligations arising from CDS (with third parties as counterparties) in the amount of EUR 168 million which are accounted for as financial guarantees (31 December 2022: EUR 168 million).

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

Other obligations

Irrevocable loan commitments of EUR 52 million (31 December 2022: EUR 46 million) consist mainly of a partially utilised liquidity facility of EUR 31 million (31 December 2022: EUR 20 million).

Other financial obligations

Some of the outsourced services (inter alia FMS-SG, Fujitsu Technology, IBM Deutschland and CGI Deutschland) are subject to long-term agreements, giving rise to other financial obligations on the part of FMS-WM. These agreements have fixed and variable performance components. An average annual contractual volume of around EUR 60 million is expected for the years 2024 to 2026, of which an average of around 70% is attributable to FMS-SG.

Assets pledged as collateral

As at 31 December 2023, there are no assets pledged as collateral for liabilities or contingent liabilities of FMS-WM. Loans and advances to banks include an amount of EUR 191 million (31 December 2022: EUR 172 million) that has been pledged to a customer as contractually agreed.

Derivative financial instruments

The market values of the unlisted OTC derivatives are determined by means of standard measurement models based on the measurement parameters available in the market.

The tables below show the breakdown of FMS-WM's interest-based and currency-based derivatives and the total return swaps (TRS):

	Nominal values				
	Remaining maturities, 31.12.2023				
in EUR million	< 1 year	1 – 5 years	> 5 years	Total 31.12.2023	Total 31.12.2022
Interest-based transactions	26,108	43,514	62,471	132,093	177,454
TRS	0	3	4,453	4,456	4,624
Currency-based transactions	5,494	7,278	21,068	33,840	36,300
Of which: forward exchange transactions	3,501	0	0	3,501	7,840
Of which: cross currency swaps	1,993	7,278	21,068	30,339	28,460
Total	**31,602**	**50,795**	**87,992**	**170,389**	**218,378**

	Fair values			
	31.12.2023		31.12.2022	
in EUR million	Positive	Negative	Positive	Negative
Interest-based transactions	1,311	–22,757	1,652	–24,631
TRS	835	–688	926	–737
Currency-based transactions	635	–551	1,208	–627
Of which: forward exchange transactions	7	–20	211	–55
Of which: cross currency swaps	628	–531	997	–572
Total	**2,781**	**–23,996**	**3,786**	**–25,995**

The book value of these derivatives reported in the prepaid expenses / deferred income item (net amount of the book values recognised in assets and liabilities) totalled EUR –6,174 million as at 31 December 2023 (31 December 2022: EUR –6,254 million). In the other assets / other liabilities item, the net book value of these derivatives in the amount of EUR 234 million is reported (31 December 2022: EUR 748 million).

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

	31.12.2023		31.12.2022	
in EUR million	Nominal values	Fair values	Nominal values	Fair values
Secured party CDS	209	13	1,556	15
Guarantor CDS	259	–1	268	–5
Total	**468**	**12**	**1,824**	**10**

Accrued payments for CDS are recognised in prepaid expenses and deferred income. As at 31 December 2023, these prepaid expenses and deferred income netted to EUR 8 million (31 December 2022: EUR 11 million).

CDSs held by FMS-WM as the secured party with a nominal volume of USD 1.5 billion expired as planned in the reporting period. The CDS where FMS-WM is the guarantor are reported under contingent liabilities in the amount of EUR 168 million (31 December 2022: EUR 168 million).

Valuation units

In accordance with Section 254 HGB, FMS-WM aggregates hedged items and hedging instruments into valuation units. FMS-WM utilises the net valuation unit presentation method to account for the valuation units. In particular, the hedged risk concerns the interest rate-induced risk of changes in value (interest rate risk).

Overall, the nominal value of these hedged items is comprised as follows:

Nominal values of the hedged items	31.12.2023 in EUR million	31.12.2022 in EUR million
Assets	25,318	27,714
Liabilities	60,418	69,176
Derivatives	1,128	2,906
Total	**86,864**	**99,796**

As at 31 December 2023, hedged items with a nominal value of EUR 4,482 million (31 December 2022: EUR 4,652 million) were combined with TRS and hedged items with a nominal value of EUR 17 million (31 December 2022: EUR 1,168 million) were combined with CDS pursuant to IDW RS BFA 1. The decline in CDS is due to the scheduled expiry of a credit derivatives position (FMS-WM as the secured party) in the reporting period.

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 2023 and whose countervailing changes in value or cash flows can be expected to balance in the future.

Assets	31.12.2023 in EUR million	31.12.2022 in EUR million
Up to three months	195	77
More than three months and up to one year	348	1,476
More than one year and up to five years	1,923	2,354
More than five years	22,852	23,807
Total	25,318	27,714

Liabilities	31.12.2023 in EUR million	31.12.2022 in EUR million
Up to three months	2,310	5,784
More than three months and up to one year	10,920	8,876
More than one year and up to five years	23,633	28,918
More than five years	23,555	25,598
Total	60,418	69,176

Derivatives	31.12.2023 in EUR million	31.12.2022 in EUR million
Up to three months	90	0
More than three months and up to one year	251	598
More than one year and up to five years	510	888
More than five years	277	1,420
Total	1,128	2,906

The net valuation presentation method does not require presentation of positive and negative changes in value of the hedged risk in micro valuation units. Were the gross hedge presentation method to be applied, effects increasing this item both on the assets and the equity and liabilities side of EUR 16,665 million would arise in each case as at the 31 December 2023 reporting date (31 December 2022: EUR 18,871 million).

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

31.12.2023 in EUR million	Negative change in value (absolute figure)	Positive change in value (absolute figure)
Hedged items	295	8,184
Hedging instruments	8,218	278
Total	**8,513**	**8,462**
Of which: not recognised	8,462	0
Of which: recognised as a provision for expected losses	51	0

Foreign-currency items

Total assets in foreign currencies as at 31 December 2023 amount to EUR 37,684 million (31 December 2022: EUR 41,452 million). Liabilities in foreign currencies as at 31 December 2023 amount to EUR 12,808 million (31 December 2022: EUR 22,667 million).

NOTES TO THE INCOME STATEMENT

Net interest income

	01.01. – 31.12.2023 in EUR million	01.01. – 31.12.2022 in EUR million
Interest income	9,662	5,418
Lending and money market transactions Including: negative interest deducted EUR 0 million (previous year: EUR 250 million)	7,698	3,919
Fixed income securities and registered government debt	1,964	1,499
Interest expenses	9,134	5,027
Lending and money market transactions Including: positive interest deducted EUR 1 million (previous year: EUR 220 million)	7,987	4,289
Securitised liabilities	572	354
Loans taken out	–122	–256
Other	697	640
Total	528	391

The increase in net interest income is attributable both to the rise in interest rate levels and to the improved funding terms as a result of raising FMS funding. The terms of the funding available through the FMS are more advantageous and therefore more favourable for FMS-WM than the terms of funding available through the capital market. Even though FMS's average funding volume remained roughly the same, the average volume of capital market funding in fiscal year 2023 was much lower than in fiscal year 2022. The unwinding of the portfolio eroded the positive effects of the increase in interest rates to some extent.

Interest income includes EUR 6,012 million (previous year: EUR 3,486 million) in interest from derivative financial instruments and EUR 0 million (previous year: EUR 250 million) in negative interest on assets (reduction of interest income). As last year, Western Europe and the United States account for most of the interest income. Derivative financial instruments account for EUR 7,977 million (previous year: EUR 4,508 million) and negative interest on liabilities for EUR 1 million (previous year: EUR 220 million) of interest expense (reduction of interest expense). The interest expenses from loans taken out also include the amortisation of premiums in relation to the funding obtained via the FMS, which has reduced interest expenses. These effects are offset by effects from interest rate derivatives in roughly the same amount.

The Other item under interest expenses mainly includes amortisation of differences in cases where the acquisition costs of risk positions exceeds their nominal value.

A change in the procedure for taking certain components of book values into account in the disposal of individual interest-bearing risk positions led to the amount presented for both interest income and interest expense for fiscal year 2022 being EUR 123.8 million too low in each case. The discrepancy in the disclosure corresponds to 2.3% of interest income for fiscal year 2022 and 2.5% of interest expense for fiscal year 2022. The amount of net interest income disclosed in fiscal year 2022 was not affected. The procedure was revised in the course of 2023. The prior-year comparatives disclosed in the annual financial statements for the year ended 31 December 2023 (in the above table relating to lending and money market transactions in each case) were adjusted accordingly.

Income from profit transfer

In fiscal year 2023, FMS-WM collected the annual result of FMS-SG in the amount of EUR 72 thousand (previous year: EUR 3 million) due to the existing profit transfer agreement with FMS-SG.

Net commission income

Net commission income in the amount of EUR –12 million (previous year: EUR –14 million) mainly reflects income and expenses in connection with credit derivatives, which net to EUR –11 million (previous year: EUR –15 million net). The year-on-year improvement is mainly due to the scheduled expiry of a credit derivatives position (FMS-WM as the secured party) in the third quarter of 2023.

Income from derivatives business is mainly attributable to Western Europe.

Other operating income and expenses

Other operating income of EUR 7 million (previous year: EUR 9 million) consists mainly of prior-period income from the reversal of provisions and income from the onward charging of services provided to FMS-SG.

Other operating expenses of EUR 3 million (previous year: EUR 1 million) mainly include portfolio-related costs and transaction costs.

General and administrative expenses

Personnel expenses for the staff employed by FMS-WM in the reporting period amount to EUR 18 million (previous year: EUR 16 million).

Other administrative expenses of EUR 84 million (previous year: EUR 113 million) mainly include expenses of EUR 68 million (previous year: EUR 100 million) incurred in the context of service outsourcing (portfolio servicing, administrative and back office activities, IT services and accounting services). In the previous year, other administrative expenses included one-off effects of EUR 15 million in connection with the IT transition initiated in fiscal year 2021 and completed in fiscal year 2022. After adjusting for these one-off effects, expenses in connection with outsourcing were once again significantly lower than in the previous year. This is mainly attributable to the decrease in expenses in connection with FMS-SG, due among other things to the cessation of operations at FMS-SG's New York branch at the end of 2022.

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

Depreciation and amortisation of intangible and tangible fixed assets amounts to EUR 34 thousand (previous year: EUR 39 thousand).

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

This item contains income and expenses in connection with the lending business amounting to a net EUR –409 million (previous year: EUR –214 million) and resulting mainly from the allocation of EUR 250 million (previous year: EUR 0 million) to the fund for general banking risks in accordance with Section 340g HGB, as well as from the measurement of loans from the portfolio.

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

This item contains income and expenses amounting to a net EUR 87 million (previous year: EUR 32 million) and mainly reflected termination effects on derivatives of EUR 25 million as well as the measurement of bonds from the portfolio.

The item includes a net revaluation gain on derivatives of EUR 21 million (previous year: EUR 26 million), which is mainly attributable to reversals of provisions for expected losses for valuation unit ineffectiveness under Section 254 HGB.

Taxes on income

The expenses of EUR 60 million (previous year: EUR 27 million) reported under this item are comprised of current income taxes of EUR 55 million and prior-period taxes of EUR 5 million and are almost entirely attributable to income taxes relating to the German parent company.

OTHER DISCLOSURES

Auditor's fee

The auditor's fee recognised during the fiscal year in the amount of EUR 2 million (previous year: EUR 2 million) is comprised as follows:

	01.01. – 31.12.2023 in EUR million	01.01. – 31.12.2022 in EUR million
Audit services	2	2
Other assurance services	0	0
Tax advisory services	0	0
Total	2	2

The expenses shown in the table are gross amounts.

Auditing services relate to the audit of the annual financial statements for fiscal year 2023 and the review of the half-yearly financial statements for the period ended 30 June 2023.

Other assurance services in the amount of EUR 31 thousand (previous year: EUR 30 thousand) were incurred in connection with FMS-WM's issuance activities.

Proposal for the appropriation of net income / loss

In accordance with Section 13 of the Charter, the Executive Board proposes to the Supervisory Board that the net income for fiscal year 2023 be allocated to retained earnings.

Annual average number of employees

At 31 December 2023, FMS-WM had 99 employees (31 December 2022: 95). The average number of employees in fiscal year 2023 was:

	Women	Men	Total
Employees	35	62	97

Shareholdings

The following overview shows the shares in affiliated companies of FMS-WM as at 31 December 2023.

Name and registered office	Share in capital	Equity in thousand	Result in thousand	Currency [1]
FMS Wertmanagement Service GmbH, Unterschleißheim	100.00 %	10.000 [2]	0 [3,4]	EUR
Hypo Real Estate Capital Corp., New York [5]	100.00 %	453 [6]	–196 [7]	USD
WH-Erste Grundstücks Verwaltungs GmbH, Munich [5]	100.00 %	11 [8]	–16 [9]	EUR

1 *Exchange rates as at 29 December 2023: 1 EUR = 1.105 USD*
2 *31 December 2023*
3 *2023*
4 *After profit transfer*
5 *In liquidation*
6 *Closing balance sheet as at 28 October 2021*
7 *1 January 2021 to 28 October 2021*
8 *Closing balance sheet as at 14 September 2021*
9 *1 January 2021 to 14 September 2021*

Corporate bodies of FMS Wertmanagement

Members of the Executive Board

Christoph Müller, CEO, Spokesman of the Executive Board

Carola Falkner, Asset Management & Treasury

Members of the Supervisory Board

Dr. Michael Kemmer – Chairman of the Supervisory Board
Diplom-Kaufmann (business administration degree)

Dr. Tammo Diemer – Deputy Chairman of the Supervisory Board
Managing Director of Bundesrepublik Deutschland – Finanzagentur GmbH

Dr. Axel Berger
Auditor and tax adviser

Dr. Frank Czichowski (since 1 February 2023)
Diplom-Volkswirt (economics degree)

Birgit Dietl-Benzin
Member of the Board of Management of DekaBank Deutsche Girozentrale AöR

Sandra Gransberger (since 2 January 2023)
Managing Director of ATHELIOS Vermögensatelier SE

Dr. Holger Horn (until 31 January 2023)
Chairman of the Board of Management of Münchener Hypothekenbank eG

Dr. Diana Kapsa
Head of Corporate Credit Risk Models of UBS Group

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 988 thousand for fiscal year 2023 (previous year: EUR 963 thousand). As in the previous year, no benefits in kind were paid to the Executive Board in fiscal year 2023. A total of EUR 100 thousand (previous year: EUR 100 thousand) was expended in the reporting period for the pension plans applicable to the members of the Executive Board.

Total remuneration of EUR 183 thousand was paid to the members of FMS-WM's Supervisory Board for fiscal year 2023 (previous year: EUR 145 thousand).

Seats held by Executive Board members

In fiscal year 2023, the members of the Executive Board of FMS-WM held no seats on a statutory supervisory body of large corporations in accordance with Section 340a (4) No. 1 HGB in conjunction with Section 267 (3) HGB.

REPORT ON POST-BALANCE SHEET DATE EVENTS

There were no reportable events after the balance sheet date.

RESPONSIBILITY STATEMENT

IN ACCORDANCE WITH SECTION 264 (2) SENTENCE 3 HGB AND SECTION 289 (1) SENTENCE 5 HGB

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of FMS-WM, and the management report includes a fair review of the development and performance of the business and the position of FMS-WM, together with a description of the material opportunities and risks associated with the expected development of FMS-WM.

Munich, 12 March 2024

FMS Wertmanagement
The Executive Board

Christoph Müller

Carola Falkner

INDEPENDENT AUDITOR'S REPORT

To FMS Wertmanagement AöR, Munich

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

Audit Opinions

We have audited the annual financial statements of FMS Wertmanagement AöR, Munich, which comprise the balance sheet as at 31 December 2023, 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 2023 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 2023.

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 2023 and of its financial performance for the financial year from 1 January to 31 December 2023 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 Section 322 (3) sentence 1 of the German Commercial Code (HGB), 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 Section 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 2023. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

1 Appropriateness of loan loss provisions in the lending business

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

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

1 Matter and issue

2 Audit approach and findings

3 Reference to further information

Hereinafter we present the key audit matters:

1 Appropriateness of loan loss provisions in the lending business

1 The lending business at FMS-WM comprises loans and advances to customers, liabilities from guarantees and indemnity agreements as well as irrevocable loan commitments. In its annual financial statements, FMS-WM reports loans and advances to customers of EUR 11.8 billion, liabilities from guarantees and indemnity agreements of EUR 0.2 billion and irrevocable loan commitments of EUR 0.1 billion. In fiscal year 2023, the risk provisioning result was negative due to a loss of EUR 409.3 million from cross-compensation. The measurement of risk provisions for the lending business is determined in particular by the executive directors' estimates with respect to the future loan defaults, the structure and quality of the loan portfolio, general economic factors and, if applicable, the effects of expected selling prices on the lending business. The amount of the specific valuation allowances for loans and advances to customers corresponds to the difference between the loan amounts outstanding and the lower value assigned to them as of the balance sheet date. The amount of the individual provisions for contingent liabilities is calculated

based on the risk of utilization. Collateral is taken into consideration. For latent default risk, global valuation allowances and provisions are generally recognised pursuant to IDW RS BFA 7 based on the expected loss over the risk remaining exposure, which is determined using statistical data. Their purpose is to cover foreseeable but not yet individually specified counterparty default risks, and negative counterparty-related developments in the lending business that have already occurred but that FMS-WM is not yet aware of. The amounts of impairments in the lending business are highly significant for the assets, liabilities and financial performance of FMS-WM, and they involve considerable judgement on the part of the executive directors. Furthermore, the valuation parameters applied, which are subject to material uncertainties, have a significant impact on the recognition and the amount of any required impairments. Against this background, this matter was of particular significance in the context of our audit.

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

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

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

1 FMS-WM determines the fair value for its financial instruments for the purposes of recognition and to present them in the notes. If no active market or observable prices for comparable instruments are available, the fair value is determined using internal valuation models. Bonds and other fixed-income securities held by third parties amounted to a book value of EUR 43.1 billion as of the balance sheet date. Of this amount, EUR 6.1 billion relates to unlisted bonds and other fixed-income securities for which no observable market prices are available and whose fair values are measured using internal models. As of the balance sheet date, derivatives with a notional value of EUR 170.4 billion were held with a positive fair value of EUR 2.8 billion and a negative fair value of EUR 24.0 billion.

These consist exclusively of unlisted OTC derivatives whose fair value is determined using internal valuation models. The key input parameters of the valuation models applied by FMS-WM are based on estimates that involve uncertainties and judgement. That leads to increased valuation uncertainties and valuation ranges for the fair values of these financial instruments. This applies in particular to complex financial instruments and the use of unobservable valuation parameters. Against this background and due to the potential effects of existing valuation uncertainties on the annual financial statements, the calculation of the fair value of mark-to-model securities and derivatives was of particular significance in the context of our audit.

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

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

Other information

The executive directors are responsible for the other information.

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

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

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

- materially inconsistent with the annual financial statements, with the management report disclosures audited in terms of content or with our knowledge obtained in the audit or
- otherwise appears to be materially misstated.

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 (i. e., fraudulent financial reporting and misappropriation of assets) 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 Section 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, actions taken to eliminate threats or safeguards applied.

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 27 March 2023. We were engaged by the Supervisory Board on 24 September 2023. We have been the auditor of the FMS Wertmanagement AöR, Munich, without interruption since the financial year 2018.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Michael Maifarth.

Munich, 13 March 2024

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Michael Maifarth	ppa. Joachim Zierau
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

FMS Wertmanagement

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