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.

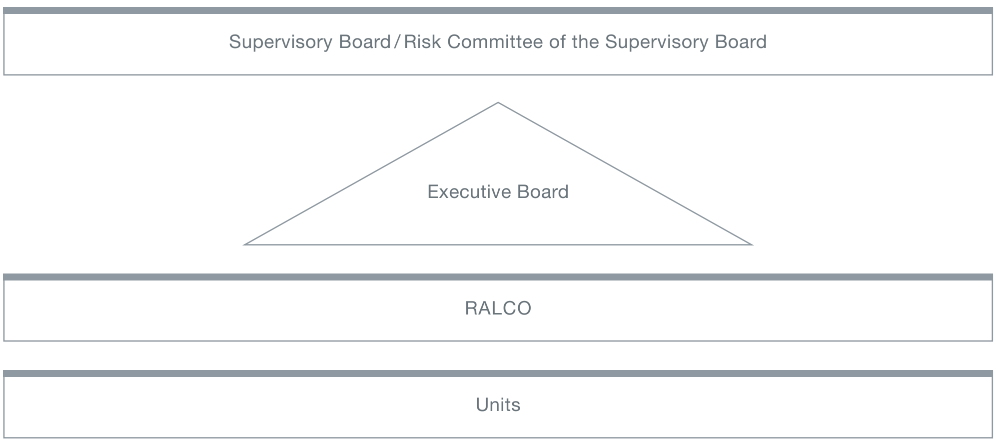
The current risk strategy is derived from the aims of FMS-WM as set out in its Charter and from the wind-up plan, which describes the business strategy and risk tolerance. Economic efficiency, operational feasibility of all risk steering activities and ensuring cost-effective funding constitute additional 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.