Erste
Abwicklungsanstalt

2009/2010 Financial Year

Annual Report

Key Figures

Income statement	€ millions
Net interest income	206.7
Net fee and commission income	18.4
Administrative expenses	– 24.9
Allowances for losses on loans and advances	– 1,255.7
Net loss for the year	**– 1,048.0**
Balance sheet	**€ billions**
Total assets	52.5
Equity	2.1
Loans and advances to banks	15.8
Loans and advances to customers	15.8
Contingent liabilities	8.7
Other obligations	7.0
Winding-up	**€ billions**
Nominal volume[1]	71.3
Winding-up activities[2]	– 6.2
	– 7.9%
Employees (FTE)	**14**
Long-term/short-term rating	
Moody's Investors Service	Aa1/P-1
Standard&Poor's	AA-/A-1+
Fitch Ratings	AAA/F1+

[1] Calculated on the basis of exchange rates as at 31 December 2009
[2] Since 1 January 2010, at exchange rates as at 31 December 2009

17 Oct. 2008

German Financial Market Stabilisation Fund Act (FMStFG) and the Act to Accelerate Financial Market Stabilisation (FMStBG) enacted

12 May 2009

European Commission requires 50% reduction in WestLB's total assets

11 Dec. 2009

WestLB Annual General Meeting resolves to transfer assets to a winding-up agency

11 Dec. 2009

The EAA is established by the Financial Market Stabilisation Authority (FMSA)

18 Dec. 2010

WestLB transfers first sub-portfolio (€ 6 billion nominal value) to the EAA

15 Feb. 201

Managing Boar members are appointed

A first look back

Since its inception, the Erste Abwicklungsanstalt (EAA) has followed two guiding principles: To facilitate consolidation and promote stabilisation.

In October 2008, at the height of the financial crisis, the German Bundestag laid down the legislative foundation for stabilising the shaken financial markets. The German Financial Market Stabilisation Fund Act (Finanzmarktstabilisierungsfondsgesetz – FMStFG) and the Act to Accelerate Financial Market Stabilisation (Finanzmarktstabilisierungsbeschleunigungsgesetz – FMStBG), inter alia, provide that banks may transfer their risk exposures to winding-up agencies: This gives them an opportunity to consolidate and reduce their total assets.

Prior to December 2009, this special escape route out of the banking crisis was available only in theory. But then the first such winding-up agency was established in Germany. In May 2009, the public shareholders of WestLB undertook vis-à-vis the European Commission to reduce its total assets by 50%. On 11 December 2009, WestLB's general shareholders' meeting voted to transfer a portion of its portfolio to a winding-up agency pursuant to section 8a FMStFG. That very same day, the Financial Market Stabilisation Authority (FMSA) established the EAA. Subsequently, a nominal volume totalling € 77.5 billion was spun off in two stages.

In the first six months of its existence, the EAA's organisational structure was developed step by step – as illustrated in the diagram below: The Managing Board was appointed, the first employees hired, the first bonds issued and the first securities sold.

By 30 June 2010, the initial foundation had been laid, but there is still work to be done with respect to EAA's development. Additional hiring is planned and the presence on the capital market is being stepped up.

With its 2009/2010 annual financial statements for the abridged financial year, the EAA presents the public with a first look back at its accomplishments to date on 7 October 2010.

30 April 2010
WestLB transfers principal portfolio (€ 71 billion nominal value) to the EAA

17 May 2010
The EAA issues its first bond (volume: € 500 million)

28 May 2010
Active portfolio management: € 750 million in securities sold

30 June 2010
End of the first abridged financial year

7 Oct. 2010
Stakeholders' Meeting adopts the EAA's first annual financial statements

The EAA's self-portrait

The EAA is the first winding-up agency of its kind in Germany. It has a clearly defined public function: to wind up the portfolios transferred by WestLB over the long term with a view to minimising risk.

The EAA therefore sees itself not as "WestLB's bad bank", but as an „independent specialist agency for solving problems associated with complex portfolios".

As a public law agency, the EAA has an important social responsibility which it takes very seriously.

It is confident that its business model will proof to be a success.

Contents

Translation of the report issued in German language on the financial statements prepared in German language by the management of EAA, Duesseldorf. The German language statements are decisive.

"We are experts for complex portfolios and have a long-term, but not indefinite mandate."

Matthias Wargers and Markus Bolder, Member of the Managing Board

Dear Stakeholders,

"WestLB's bad bank" – the moniker we've been saddled with is catchy, but misleading. The Erste Abwicklungsanstalt (EAA) is neither a bank, nor is it bad. As a public law agency, the EAA has a clearly defined public function: to wind up a broad portfolio while minimising risk. By doing so, we are helping to stabilise the financial market.

Indeed, the portfolio which we have assumed from WestLB does contain risky securities. Yet the majority of this portfolio comprises assets which no longer fit in with WestLB's new strategy, but which are still valuable. In particular, it contains international exposures.

Over the past months, we have laid the foundations on which we will be able to fulfil our mandate. We have recruited highly experienced, top-quality staff. The tremendous motivation of all parties involved has enabled us to make great strides in managing the task at hand. We lost no time in breathing life into the body of agreements, policies and regulations that underpin the EAA.

We concluded our first abridged financial year on 30 June 2010. The € 1 billion loss for the year was driven by our recognition of allowances for losses on loans and advances, reflecting our strategy for winding up exposures while minimising risk. It should be emphasised that this allowance is not paid for by taxpayers; it is funded through equity. With € 2.1 billion in equity remaining at the close of the first financial year and € 52.5 billion in total assets, we are well equipped to face the future. At the same time, we are pleased to report that in the first months of the EAA's activities, we successfully wound up more than € 6 billion in assets.

The EAA's first annual report presents not only our first set of annual financial statements, but also provides an insight into our work. In this report, we aim to demonstrate that we are on the right track and that we are optimistic about being able to meet the challenges ahead.

Yours sincerely,

Matthias Wargers
Member of the Managing Board

Markus Bolder
Member of the Managing Board

Risk minimisation, sustainability and responsibility

The Erste Abwicklungsanstalt's business objective is unique in the financial sector: Rather than maximising profit, its aim is to minimise risks and losses. It has assumed approximately € 77 billion in risk exposures and non-strategic business assets from WestLB, the Landesbank of the State of North Rhine-Westphalia.

In response to the international financial market crisis, the German legislature passed the Financial Market Stabilisation Fund Act (*Finanzmarktstabilisierungsfondsgesetz* – FMStFG) and the Act to Accelerate Financial Market Stabilisation (*Finanzmarktstabilisierungsbeschleunigungsgesetz* – FMStBG), clearing the path for the establishment of winding-up agencies. These enabled banks to quickly eliminate risk exposures and non-strategic business assets from their balance sheets.

The EAA is the first agency of its kind in Germany. Its formation in December 2009 laid the groundwork for WestLB's realignment. Going forward, WestLB will refocus on its core business. To enable it to do so, EAA assumed a diverse international portfolio from WestLB and is thus playing a vital role in restoring stability in the financial markets.

A public function geared toward the long term

The EAA has its headquarters in Düsseldorf and is a structurally and financially independent public law entity with partial legal capacity operating under the umbrella of the Financial Market Stabilisation Authority (*Bundesanstalt für Finanzmarktstabilisierung* – FMSA). Risk minimisation, sustainability and responsibility to stakeholders are the core principles of the EAA. The EAA is working to wind up the portfolio it has assumed in a risk minimising way over the long term. It does not transact any new business and thus does not accept new risks. The EAA therefore has a clearly defined public function, which includes the assumption of social responsibility: The risk exposures in the portfolio must ideally be wound up without placing a burden on public budgets. The EAA's work is performed in line with a detailed winding-up plan resolved by the Supervisory Board and approved by the FMSA.


Hermann Groß, Head of the Market Risk department

"We manage the risks we've assumed in a transparent and responsible manner."

The EAA is not a bank within the meaning of the German Banking Act (*Kreditwesengesetz* – KWG). Its financial accounting is based solely on the German Commercial Code (*Handelsgesetzbuch* – HGB); short-term market fluctuations therefore have a minimal impact on its annual financial statements. As a result, the EAA can act on a considerably longer-term basis than can any commercial bank. Time is a key factor in successfully winding up a large portfolio.

A diversified structure

The EAA's portfolio is much like that of many international banks: it includes a cross-section of all of the usual financial instruments, from government bonds, structured securities and loans right through to personal loans. The EAA took on two tranches of assets with a combined nominal volume of approximately € 77 billion.

The EAA will continue to manage the assets it acquired from WestLB AG with the usual quality of service. As far as customers and investors are concerned, it is universal successor to all contractual and statutory obligations of WestLB arising in connection with the transferred assets and liabilities.

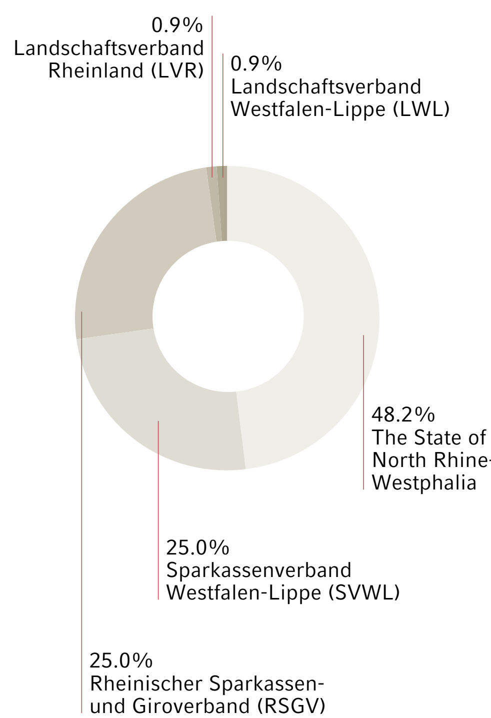
Customers and investors will deal with the same contact persons as before. The EAA and WestLB have entered into a cooperation agreement pursuant to which WestLB continues to manage the transferred business assets. However, the EAA will have the sole authority to dispose of these assets.

A robust structure

Since its formation in December 2009, the EAA has made substantial progress in structuring the active management of its portfolio. The two members of the Managing Board, Matthias Wargers and Markus Bolder, took up their positions in February and March 2010. They began the task of building up an experienced employee base. Additionally, decisionmaking processes were established and the necessary infrastructure was set up.

The EAA is organised along the lines of a clear breakdown of responsibilities: The Managing Board conducts the EAA's business, and the Supervisory Board is the body charged with monitoring the activities of the Managing Board. The Managing Board is required to inform and involve the Supervisory Board in key decisions. This structure is based on an allocation of powers and responsibilities similar to that at banks.

Stakeholder structure



The EAA's stakeholders' meeting has appointed prominent financial market experts to the Supervisory Board who monitor the work of the EAA on an ongoing basis.

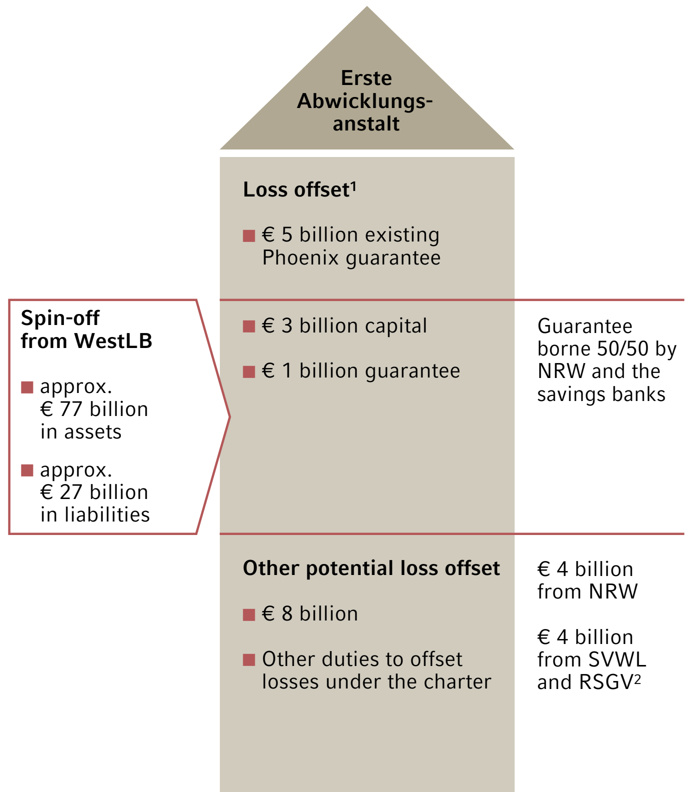
Stable funding

The EAA's stakeholders are the State of North Rhine-Westphalia, the Rheinische Sparkassen- und Giroverband (RSGV), the Sparkassenverband Westfalen-Lippe (SVWL), and the Landschaftsverbände Rheinland and Westfalen-Lippe.

The spin-off generated € 3.1 billion in equity for the EAA and a € 1 billion stakeholder guarantee was secured. To cover losses not funded by this equity or the guarantee, the stakeholders have taken up commitments in proportion to their respective stake to ensure that the EAA is always in a position to meet its liabilities as they fall due, even after its equity capital has been exhausted. The Rheinische Sparkassen- und Giroverband (RSGV) and the Sparkassenverband Westfalen-Lippe (SVWL) have a duty to offset losses up to a combined total of € 4.5 billion. The State of North Rhine-Westphalia (NRW) has assumed liability for the fulfilment by the RSGV and the SVWL of their duty to offset losses up to this combined total of € 4.5 billion. If the share of losses to be allocated to the RSGV and the SVWL exceeds the total amount named above, the Financial Market Stabilisation Authority (FMSA), acting on behalf of the Financial Market Stabilisation Fund (FMS), and the State of North Rhine-Westphalia agree to assume the duty to offset losses to be allocated to the RSGV and SVWL.

A core objective of the EAA is to not call upon its stakeholders to fulfil their guarantee. Based on the duties of the EAA's stakeholders to offset losses, the leading rating agencies assessed its creditworthiness as very good right from the outset. Moody's issued an Aa1 rating, Standard & Poor's awarded a AA-, and Fitch Ratings gave the EAA its top rating of AAA. These ratings are the same as those of the State of North Rhine-Westphalia and are essential to the EAA's funding. Due to these ratings, the EAA can regularly raise the liquidity necessary for its winding-up activities on the capital market at favourable terms. In its first abridged financial year, the EAA placed € 1.1 billion in bonds with market participants other than WestLB as early as 30 June 2010.

Duties to offset losses within the EAA



[1] Contribution of the regional authorities (Landschaftsverbände) omitted for the sake of simplicity

[2] Savings banks save the total amount of the guarantees attributed to them over a period of 25 years

“We’re making an important contribution toward stabilising the banking system.”

Uwe Drangmeister, Head of MIS Reporting und Controlling

EAA's portfolio: An active strategy garners initial success

The EAA has a portfolio with a nominal value of approximately € 77 billion, which it manages on the basis of economic criteria under the condition of risk minimisation. The EAA's aim is to avoid having to call on the guarantees provided by its public stakeholders because it does not want to pass the burden on to taxpayers.

The EAA's portfolio was transferred from WestLB in two stages, as planned. The first stage was completed in December 2009 with the spin-off of € 6.2 billion in structured securities from the "Phoenix" portfolio. In the second stage, the "principal" portfolio worth a nominal € 71.3 billion was transferred to the EAA as planned on 30 April 2010, with retroactive effect to 1 January 2010. The principal portfolio comprises risk exposures and non-strategic business assets of WestLB.

The portfolio assets were transferred via various channels: The large majority was acquired by way of spin-off, cash sub-participation and the assumption of guarantees on loans and other assets by the EAA. In each case, the EAA bore the full economic risk of the transfer. Different transfer channels were selected in order to minimise the risks associated with the transfer and to comply with relevant state law.

The synthetic transfer by means of guarantees and committed but undrawn credit lines has enabled the EAA to keep its book value of total assets significantly below the level of its nominal risk assets of approximately € 77 billion.

Features of the EAA portfolio

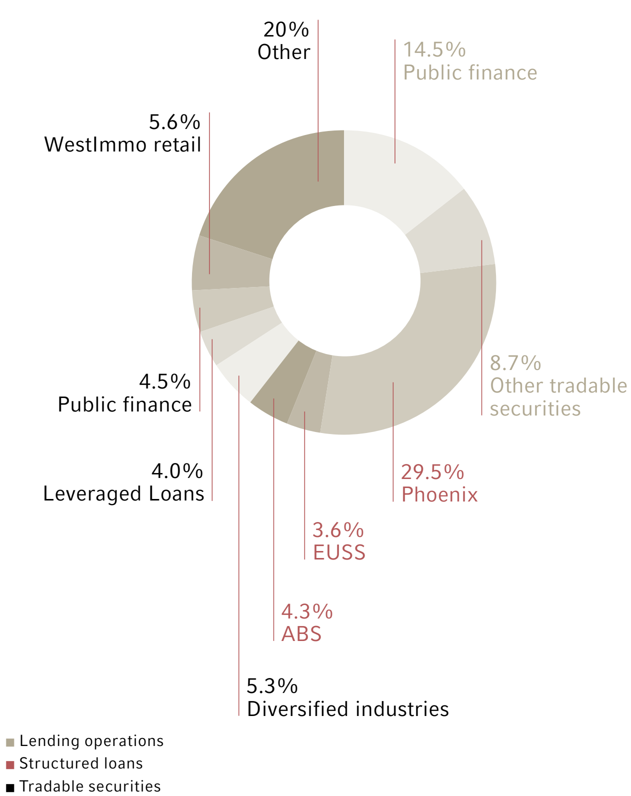
The EAA's portfolio comprises three sub-portfolios: Lending operations, tradable securities and structured loans. The largest sub-portfolio, lending operations, which at the time of transfer was valued at a nominal € 30.5 billion, represents over 39% of the total portfolio volume, and comprises international syndicated and bilateral loans. The borrowers represent a broad cross-section of industries, including financial services, diversified industries (a broadly diversified portfolio of corporate loans), shipping, aviation, hotels/special real estate and energy. The portfolio also includes leases and leveraged loans.

The second key sub-portfolio consists of structured loans representing a nominal volume of approximately € 29 billion or approximately 37% of the total portfolio volume. In addition to the transferred "Phoenix" securities, it also includes European Super Senior Notes (EUSS) and other asset backed securities (ABS).

With a nominal volume of € 18 billion, tradable securities is the smallest of the three sub-portfolios, representing just over 23% of the total portfolio volume. It includes government, municipal, corporate and bank bonds with good credit ratings.

Sub-portfolios by nominal volume as at 1 January 2010

100% = € 77.5 billion



The complete transfer of non-strategic business assets – many with good credit ratings – is reflected in the overall good quality of the portfolio: Approximately 60% of the total portfolio is rated investment grade. The portfolio is also broadly diversified from a geographical standpoint: For example, approximately two thirds of the total nominal volume is attributable to the EMEA region Europe (excluding Germany), Middle East and Africa), approximately 10% to Germany, 21% to the Americas and 5% to the APAC region (Asia-Pacific region).

Managing 23 individual portfolios

In order to ensure that the three sub-portfolios' assets are managed in line with the principal of risk minimisation, they were further sub-divided into 23 individual portfolios. This made it possible to create homogenous asset sub-classes, each with the same risk parameters. The diagram on the left shows the largest individual portfolios by volume.

Sixteen of the 23 individual portfolios stem from the lending operations sub-portfolio. Each of these individual portfolios has a nominal volume of at least € 500 million, the largest being approximately € 4 billion.

The diversified industries portfolio includes, for example, loans to industrial companies and international corporate groups with credit ratings at the low BBB end. At the date of transfer, it contained 156 individual exposures representing a total nominal volume of € 4.1 billion. Sixty-one percent of this portfolio is concentrated in the EMEA region. The ten largest individual exposures represent approximately 33% of this individual portfolio.

Gabriele Müller, Head of Portfolio Strategy

"Many markets have stabilised.
We already have many potential
investors interested in our securities
and loan portfolio."

A clear portfolio management strategy

The corporate purpose and winding-up plan serve as the guidelines for managing the portfolio: The aim is to gradually sell off the entire portfolio while minimising risk and avoiding having to call on the guarantees provided by the EAA's stakeholders.

With these goals and requirements in mind, the portfolios are reviewed on an ongoing basis to determine whether selected assets or even entire portfolios can be sold. When assets are sold, special priority is given to liquidating risk clusters and high-risk exposures. This is because it is preferable that the portfolio retains those low-risk assets in the winding-up plan which are expected to generate gains over their respective terms. All decisions to liquidate assets follow the same logic – here for example in the case of a loan exposure: If the current market price exceeds the carrying amount of the loan (i.e., the amount at which the EAA acquired the exposure), this satisfies the first requirement for selling the exposure.

Furthermore, an opportunity analysis is conducted to observe the effects of the sale over the entire term of the loan: In addition to an accounting profit (market value less current book value) one considers the forgone present value of its interest income in excess of its funding costs as well as the net present value of the saved expected losses by way of selling the assets. If this analysis renders a positive result, the second basic requirement for selling the asset is met. This approach enables the EAA to sell off assets in such a way that it can build up a capital buffer to offset any losses from other portfolios. This operates to actively counter any need to call on the guarantees provided by the stakeholders.

This also implies that net liquidity discounts on the price currently demanded by the capital market – for example, for securities of highly rated borrowers – will not necessarily result in a sale because the forgone net income over the term is not offset by any saved expected losses and current market prices are generally lower than the securities' redemption value. On the other hand, in the future such low-risk assets may also be packaged together with more risky assets for disposal as a way to meet the requirements of the winding-up plan in the aggregate and to achieve the objective of minimising risk.

A proactive approach to the major risk drivers

The EAA is constantly monitoring its portfolio – including the individual portfolios and even specific exposures. In so doing, it assesses the impact that changes in credit risk and other risk factors could have on the portfolio. This allows the consequences of potential systemic crises to be assessed, as well. Much the way commercial banks do, the EAA evaluates problem loans to determine to what extent allowances for losses on loans and advances are appropriate. In the case of individual loans, credit quality and probability of default are also evaluated on a regular basis using balance sheet and ratings analyses.

By continuously monitoring the portfolio, the EAA is able to ensure that risks can be identified early and countered appropriately. Special focus is placed on the Phoenix portfolio, which contains structured securities with a nominal value of approximately € 23 billion and makes up the lion's share of the structured credit segment. Approximately 90% of the Phoenix portfolio consists of US exposures, in particular securities relating to the US real estate market.

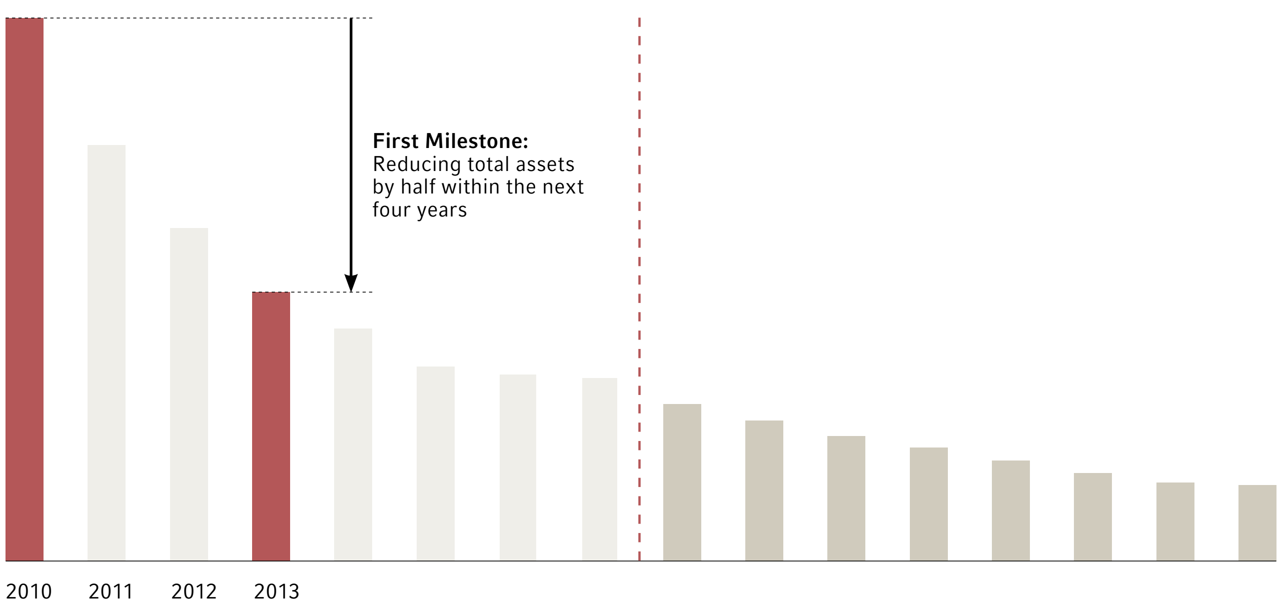
Due to recent developments on the sovereign debt markets the EAA is also carefully monitoring and proactively managing its individual exposures in the public finance sector as well as in its lending operations and tradable securities sub-portfolios.

The first winding-up profits have already been generated

In the coming years, the EAA plans to liquidate a substantial portion of its portfolio: The winding-up plan provides for a series of repayments and disposals aimed at reducing the initial € 52 billion (adjusted for foreign exchange effects) in book value of total assets. The agency's current goal is to reduce its total assets by half within the next four years. The diagram below illustrates the planned winding-up objectives.

As planned, the EAA began actively managing its portfolio in 2010. Given constant foreign exchange rates, it was able to liquidate a nominal volume of approximately € 6.2 billion as at 30 June 2010. This represents approximately 8% of the total portfolio, which means that it now been reduced to approximately € 71 billion.

Portfolio development timeline



"The PEG manages our portfolio. We share a common objective."

Hartmut Rahner, Head of Treasury

The EAA's exclusive team of experts

The Portfolio Exit Group (PEG) plays a key role in the EAA's day-to-day business. Although part of the WestLB structure, PEG is physically segregated from the rest of the WestLB departments and is staffed with approximately 70 experts who exclusively work on behalf of the EAA. Together with the EAA's management, the staff of the PEG serve as direct contact persons for all the agency's clients and investors, which ensures simple and straightforward communication channels for all concerned.

As an agency with a public function, the EAA is under an obligation to handle its financial resources prudently and with clear objectives. In order to keep its organisation streamlined and reaction times short, the EAA engaged WestLB to manage its portfolio.

To this end, WestLB established the PEG in March 2010. In order to avoid conflicts of interest, the PEG works as a discrete unit, segregated from the bank's other departments. The staff serves only the EAA's objectives. Its employees may not disclose any information to WestLB, its clients or investors without the EAA's consent.

The PEG's staff members have longstanding experience in restructuring financial assets and settling loans. Their specialist market and industry expertise helps the EAA ensure that the extensive portfolio can be wound up in a professional and efficient manner. Because the portfolio consists largely of international exposures, the PEG also has offices in the financial centres of London, New York and Tokyo in addition to the local office in Düsseldorf. This way, the EAA, which is based exclusively in Düsseldorf, can transact business in all its key financial arenas.

Although the EAA has the sole decision making authority, all operational plans are closely co-ordinated with the PEG at regular working meetings. The PEG monitors the markets, makes recommendations and implements the decisions. This division of labour frees up the EAA to concentrate on its core responsibility: The strategic management of liquidating its portfolio.

"We've got staying power"

The two members of the Managing Board, Matthias Wargers and Markus Bolder, joined the EAA as its first employees in February and March 2010. They discuss the EAA's formation, their goals and the first annual figures.

Mr. Wargers, Mr. Bolder, the Erste Abwicklungsanstalt has been called a "bad bank". How do you see it?

Matthias Wargers: The EAA is neither a bank, nor is it bad. On the contrary: We're helping to stabilise the financial market – and that's a good thing.

Markus Bolder: By taking on WestLB's risk exposures and non-strategic assets, we've enabled it to focus on restructuring. We hope that by doing this, the EAA can help bring about an appropriate consolidation within the Landesbank sector.

What can the EAA do that WestLB cannot?

Markus Bolder: As a German stock corporation, WestLB is geared toward generating a profit. By contrast, the EAA is a public law agency which pursues long-term objectives. One major difference is that we draw up our accounts solely in accordance with the German Commercial Code (HGB). This makes valuating our portfolio far less sensitive to short-term market fluctuations.

Matthias Wargers: The good ratings and accounting in accordance with HGB and the good ratings give the EAA the ability to operate strategically, particularly when it comes to winding up risky securities. This will provide us staying power in the taxpayer's interest.

Can you describe your relationship to WestLB?

Markus Bolder: We have the same owners. However, the EAA operates on a completely independent basis. WestLB is our external service provider when it comes to managing the portfolio. WestLB's Portfolio Exit Group, which is strictly separated from the rest of the departments there, manages our portfolio. The EAA alone makes all decisions that concern the portfolio.

You mentioned that the EAA is a public law agency. How much is it costing taxpayers?

Matthias Wargers: We have not received any taxpayers' money. But our work is founded on creditworthiness, particularly that of the State of North Rhine-Westphalia. Like the EAA's other stakeholders, the State has also issued guarantees on our behalf. The EAA's ratings by leading rating agencies are thus the same as

(1)

(1) Matthias Wargers

Date of birth: 13 July 1966; Place of birth: Greven

Qualifications and professional experience

1988 – 1993	Studied economics/international studies at Friedrich-Alexander-Universität Erlangen-Nürnberg; Awarded degree in economics (Diplom-Volkswirt)
11/1993 – 6/2000	**WestLB AG, Düsseldorf**
11/1993 – 1/1995	Trainee programme
2/1995 – 6/2000	Senior project manager, development projects of the State of North Rhine-Westphalia and “EU proceedings”
8/2000 – 12/2000	**Roland Berger & Partner GmbH, München** Senior Consultant, Competence Center Corporate Strategy
1/2001 – 2/2010	**WestLB AG, Düsseldorf**
1/2001 – 1/2004	Project manager, “Formation of NRW.BANK” and “Realignment of real estate financing”
2/2004 – 5/2007	Head of strategic special projects
6/2007 – 2/2010	Head of group development
since 2/2010	**Erste Abwicklungsanstalt, Düsseldorf** Member of the Managing Board

(2) Markus Bolder

Date of birth: 5. Juni 1963; Place of birth: Cologne

Qualifications and professional experience

1982 – 1984	**Deutsche Bank Gruppe, Cologne** bank internship
1985 – 1988	Studied business administration (Betriebswirtschaft); Awarded degree in business administration (Diplom-Betriebswirt)
10/1988 – 7/1992	**Hewlett Packard, Stuttgart/Genf** Treasury
7/1992 – 3/1995	**DG Bank, Frankfurt** Risk controlling
3/1995 – 3/1998	**Credit Suisse First Boston, Frankfurt** Head of Credit and Risk Management Unit
3/1998 – 9/2000	**Dresdner Bank, Frankfurt** Head of Credit and Counterparty Risk Unit
10/2000 – 11/2007	**Deutsche Genossenschafts-Hypothekenbank, Hamburg** Head of Credit Treasury Unit
12/2007 – 3/2010	**Servicing Advisors Deutschland, Frankfurt** Chief Executive Officer
since 3/2010	**Erste Abwicklungsanstalt, Düsseldorf** Member of the Managing Board

(2)

those for the State. This means we are in a position to obtain stable funding on the capital market at favourable terms. This buys us the time we need to fulfil our mandate. However, we do not intend to call upon our stakeholders' guarantees. This is a responsibility which we take very seriously.

What does the EAA do exactly?

Markus Bolder: We observe the market constantly and look for opportunities to dispose of the individual assets in our portfolio at the highest price possible. Our aim is to sell and use assets in such as way as to generate positive earnings so that we are able to offset any losses we incur.

How long do you expect that to take?

Matthias Wargers: We don't know. A portfolio of this magnitude and complexity isn't something that can be liquidated in just a few years. But we are not a dumping ground for North Rhine-Westphalia's financial assets. In the long term, we hope to make the EAA redundant. Our first major objective is to cut our total assets from approximately € 53 billion at present in half within the first four years.

You want to minimise losses. Yet for the abridged financial year, you are reporting a large loss. Doesn't this mean that the EAA has failed from the outset?

Markus Bolder: No. The loss was caused primarily by necessary allowances for losses on loans and advances, specifically for our "Phoenix" portfolio, which consists of various structured securities. By doing this we have taken the necessary precautions for potential future losses due to this exposure and in our lending portfolio.

Matthias Wargers: Just like any other prudent businessman would do, we took precautions, and used the equity capital provided to us to do so. However, what really counts is that we've already made successful portfolio adjustments that enabled us to wind up more than € 6 billion in assets in the initial months – and that with positive operating earnings before allowances for losses on loans and advances. We're satisfied with this result.

What risks lurk in your portfolio?

Markus Bolder: A total of more than € 1.3 billion in allowances for losses on loans and advances reflects the currently expected permanent impairments in our portfolio. The value of the individual exposures depends on the valuation horizon. Since we are geared toward the long-term, there is the potential for many risky assets to climb back up to their original values.

One good example of this is our shipping portfolio, which was strained by the global economic crisis. As the economy perks up again, charter rates will climb. Once this occurs, these exposures will have a completely different value, and could be profitable again. Only a small portion of the loans which we assumed are subject to an acute default risk – less than ten percent of our overall portfolio.

Matthias Wargers: As a matter of fact, the majority of our portfolio does not consist of risky securities. Our portfolio contains several international assets with solid value, which will garner an appropriate price. These are transactions which no longer fit in with WestLB's strategy and which were thus spun off as part of its strategic realignment.

You've also accepted personal mortgage loans from WestLB and its subsidiary Westdeutsche ImmobilienBank. Should private borrowers be worried now?

Matthias Wargers: No. For them it's basically business as usual, except that the EAA is now their financial lender. These clients will still have the same contact persons as before. As a public agency, we believe we have a particular responsibility to such clients.

What have you achieved since the EAA was founded?

Markus Bolder: In the first months, our focus was on setting up the agency. We've hired a qualified and highly motivated staff and established the EAA's organisational structures. We allocated powers and authorities, established a risk management regime and laid out the decision making and management structure that enable us to operate effectively in the markets. In addition, we've secured the EAA's funding and set up a detailed reporting system. We're on the right track toward being able to actively fulfil our public mandate.

What specific challenges did you face while forming the EAA?

Matthias Wargers: The timeframe for setting up the EAA from mid-February to when we took on our principal portfolio on 30 April 2010 was extremely tight. We were under intense pressure to lay the foundations needed to enable us to manage such a large portfolio.

What are your objectives for the new financial year?

Markus Bolder: First, we want to continue actively winding up the portfolio. Second, we want to diversify our funding sources and expand our independent presence on the capital market so that we can replace the majority of our funding hold by WestLB. Third, we want to optimise the management tools we use to manage our portfolio.

What do you get out of working for a winding-up agency, on a personal level?

Matthias Wargers: The EAA is a very exciting start-up. We're doing groundbreaking work because liquidating portfolios and balance sheet items is currently one of the financial industry's biggest challenges.

Markus Bolder: This is going to be one of the core tasks in the next five to ten years – not only in Germany. And the EAA is very active on the international markets. That's also a big incentive, both for us and for our colleagues.


(1)


(2)


(3)


(5)


(6)


(7)

Our team: EAA employees

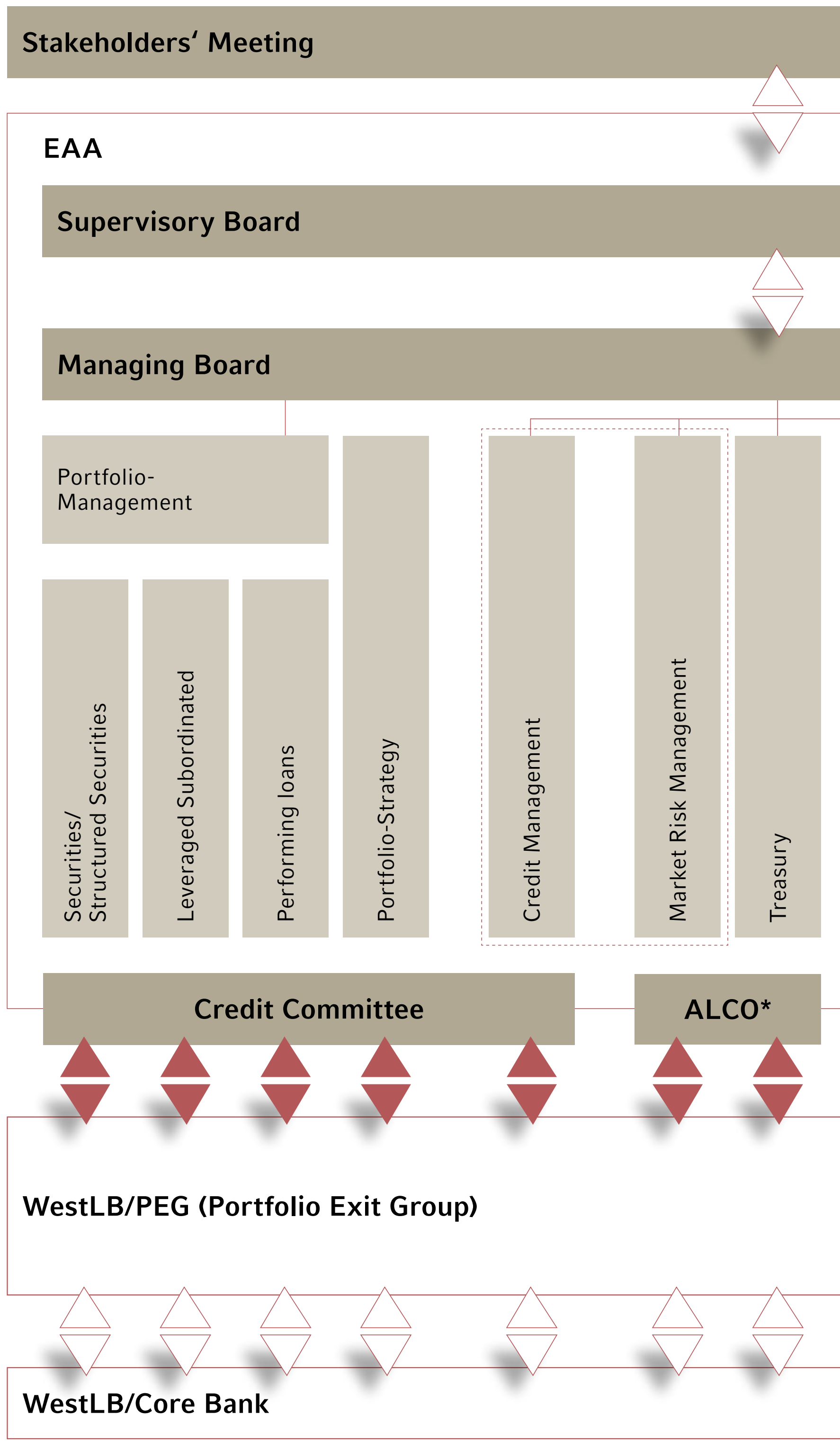
(1) Enno Balz, Structured Securities Portfolio Manager
(2) Holger Dohra, Head of Investor Relations
(3) Christian Doppstadt, Portfolio Manager (as from 1 November 2010)
(4) Uwe Drangmeiser, Head of MIS Reporting und Controlling
(5) Gregor Garten, Head of Legal Department (as from 1 October 2010)
(6) Hermann Groß, Head of the Market Risk department
(7) Sven Guckelberger, Head of Credit Risk Management
(8) Torsten Hohendorff, Head of IT/Organisation
(9) Dieter Jötten, Head of Board Office and Committee Services
(10) Andreas Kandel, Head of Tax and Finances
(11) Christoph Kirschhöfer, Head of Compliance and Internal Audit (as from 1 Januar 2011)
(12) Heider Mehlhorn, Portfolio Manager (as from 1 December 2010)
(13) Gabriele Müller, Head of Portfolio Strategy
(14) Hartmut Rahner, Head of Treasury


(9)

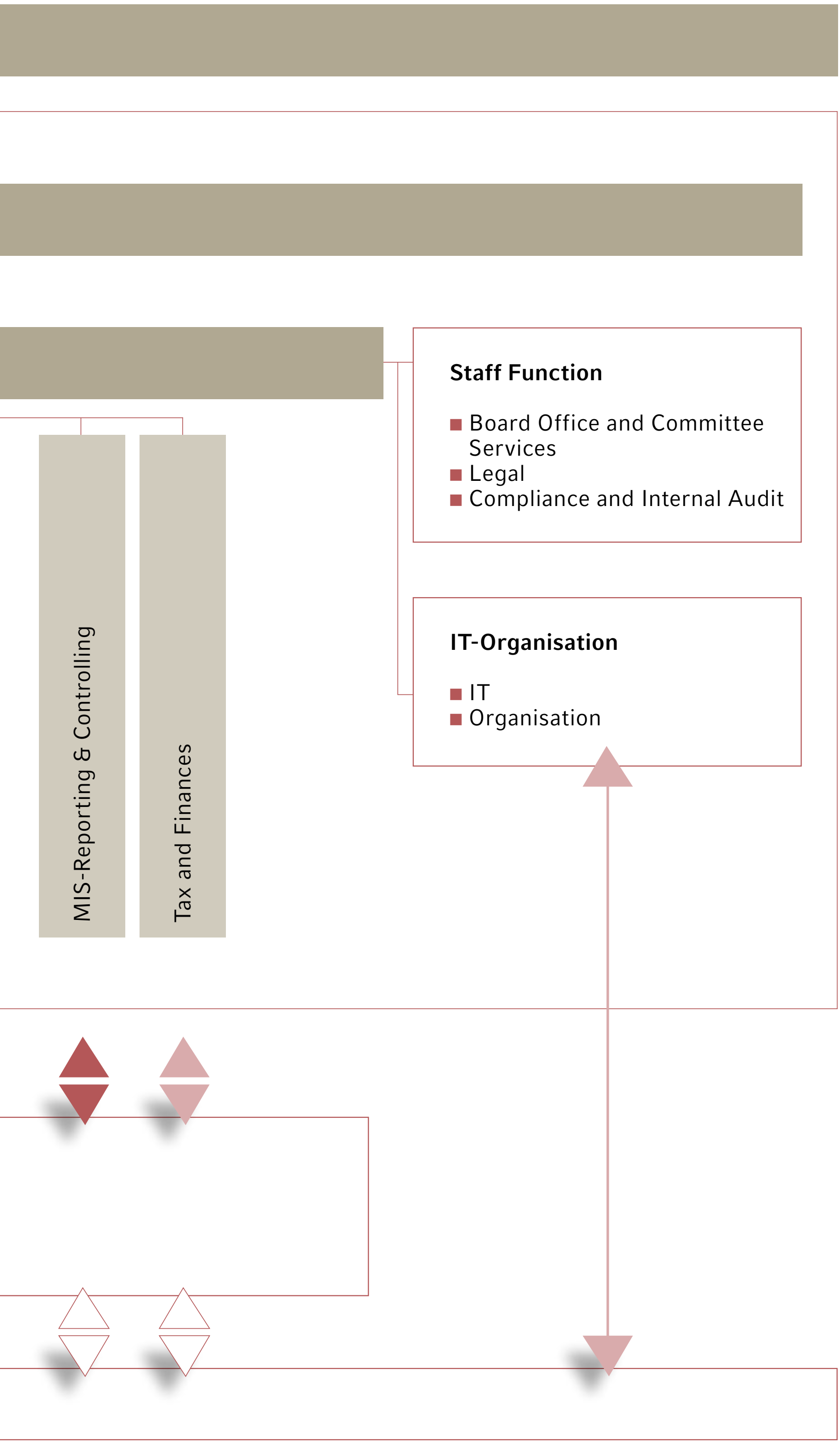

(11)


(12)

Target organisational model defined for the EAA



* Asset Liability Committee



Staff Function
Board Office and Committee Services
Legal
Compliance and Internal Audit
IT-Organisation
IT
Organisation
MIS-Reporting & Controlling
Tax and Finances

Our Structure

Report of the Supervisory Board

The Supervisory Board was established along with the EAA on 11 December 2009. During the abridged financial year ended 30 June 2010, it held seven sessions in the exercise of its rights and performance of its duties under the law and its charter. The standing committees created from among its ranks, the Audit Committee and the Risk Committee, also met once during this time.

Over the past few months, the Supervisory Board's focus has been on appointing the members of the Managing Board and establishing the general framework and infrastructure for the EAA. The Supervisory Board also advised the Managing Board, supervised its management activities and participated in decisions of fundamental importance to the EAA. On the basis of wind-up reports submitted to it as well as other reports brought to its attention, the Supervisory Board has kept itself informed of the EAA's status both in and outside the context of meetings.

The Supervisory Board appointed PricewaterhouseCoopers AG as the EAA's auditor. PricewaterhouseCoopers AG audited the EAA's annual financial statements and the Management Report for the abridged financial year ended 30 June 2010 and issued an unqualified audit opinion. The Supervisory Board and the Audit Committee created from among its ranks have discussed the findings of the auditor's report in detail and no objections were raised thereto.

At its meeting on 4 October 2010, the Supervisory Board approved the annual financial statements and the Management Report prepared by the Managing Board and recommends that the stakeholders meeting adopt the annual financial statements for the abridged financial year.

Düsseldorf, dated 4 October 2010

Dr. Rüdiger Messal
Chairman of the Supervisory Board

"The EAA works in the public's interest. This will pay off for everyone in the end."

Chairman of the Supervisory Board

Financial Report

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Management Report

for the Abridged Financial Year ended 30 June 2010

Business and environment

Overview of economic development

The EAA was formed on 11 December 2009 with the task of acquiring and winding up risk exposures and assets which no longer fit in with WestLB's business strategy. Its formation was entered into the commercial register of the Local Court of Düsseldorf on 23 December 2009.

WestLB transferred its risk exposures and non-strategic assets and liabilities to the EAA in two stages: On 23 December 2009, a nominal volume of € 6.2 billion in structured securities were spun off with retroactive effect to 1 January 2009. On 30 April 2010 – with retroactive effect to 1 January 2010 – the far greater portion of the so-called principal portfolio, which consisted in particular of loans, securities, structured securities, and equity investments worth a nominal € 71.3 billion, and liabilities, was transferred to the EAA and its subsidiaries via different channels: spin-off, sub-participation, guarantee and disposal. This transfer generated a total of € 3,137 million in equity for the EAA. The EAA's funding comes on the one hand from the spin-off of WestLB's own issues, which continue to be backed by stakeholder guarantees. On the other hand, this gave rise to an equalization claim vis-à-vis WestLB, which was gradually replaced by way of EAA bonds, money market transactions, securities repurchase agreements and securities lending. Derivatives transactions were used to hedge interest and exchange rate risks.

The EAA's earnings situation in the abridged 2009/2010 financial year was driven by € 824.2 million (net) allowances recognised in respect of losses on structured securities – particularly in the "Phoenix" portfolio – and € 431.5 million (net) in allowances recognised in respect of losses on loans and advances. The winding-up plan for the first financial year anticipated that expenses would be incurred in relation to allowances for losses. These were offset by net interest income amounting to € 206.8 million and net fee and commission income of € 18.4 million. General and administrative expenses during the EAA's ongoing set-up amounted to € 24.9 million. In total, the EAA reported a net loss for the financial year of € 1,048.0 million as at 30 June 2010, which will be carried forward to new account.

The book value of EAA's total assets amounted to € 52.5 billion as at 30 June 2010. Its business volume, which also includes off-balance sheet items, amounted to € 68.2 billion. Due to foreign ex-change effects and the liquidation of off-balance sheet items, the winding-up profits generated thus far are not reflected in the agency's total assets for the abridged financial year. Foreign exchange effects – particularly the performance of the US dollar since the beginning of the year – resulted in a € 6.5 billion increase in nominal volume. Given constant exchange rates since 31 December 2009 as a basis for calculation, the nominal volume of the portfolio taken on by the EAA (incl. subsidiaries) was reduced by € 6.2 billion as at 30 June 2010. More than half of this reduction was attributable to active portfolio management.

General Economic conditions

The global economy continued to recover from the recession during the first half of 2010. Although the wide-ranging measures taken by governments and central banks to bolster financial institutions and the economy have been effective, the consequences of extremely expansive fiscal policies are now becoming ever more apparent as government deficits loom and national debts soar. Significant turmoil erupted on the financial markets due to a spike in the national debts of some of the member states of the European Monetary Union (EMU) that was not simply a consequence of government stimulus measures. The focus initially fell on Greece, which had experienced a dramatic erosion in the conditions under which it could obtain funding due to mounting uncertainty as to the sustainability of its public finances. In the interest of averting a potential default, the eurozone countries and the International Monetary Fund (IMF) approved loan requests lodged by the Greek government. As a consequence, the spreads between Greek and German government bonds narrowed again from their interim highs. However, yields on Greek government bonds remain significantly higher than before the crisis.

A € 750 billion bailout package was put into place to contain the Greek crisis. The package is intended to shore up other eurozone countries in the event they come into financial difficulties. The European Central Bank (ECB) provided additional support for this aid package by buying up government and private bonds on the secondary market, in addition to carrying out other money market operations. However, these measures were not sufficient to quell rising doubts concerning the solvency of other EMU countries besides Greece, particularly Portugal and Spain. Persistent uncertainty led investors' risk aversion to increase, which in turn resulted in rising spreads for European government bonds and a tendency toward restraint in purchasing structured loans.

The EMU debt crisis led to an increase in demand for German government bonds as a safe haven. These have experienced significant price gains since the beginning of the year. At the beginning of June, the 10-year Bund yield slumped to 2.5%, a new all-time low. Public debate on the impending insolvency of Greece and other countries placed increasing pressure on the euro. International investors continued to lose confidence in the EMU's stability. For a while the euro fell below 1.20 USD/EUR, its lowest level since February 2006.

By the first half of 2010, economic development was no longer as internationally synchronous as it had been prior to the financial and economic crisis. At present, the global economic recovery is being driven primarily by the emerging markets. With China in the lead, economic output is growing at the fastest pace in the emerging Asian economies. Within the emerging markets regions, these are followed by Latin America and – at a considerable distance – central and eastern Europe.

By contrast, the industrialised countries have experienced far less economic momentum. Although in the US far-reaching stimulus packages and an extremely expansive monetary policy had initially set off a substantial economic recovery, growth began to flounder again in the course of the first half of the year. Unemployment figures were slow to fall. Consumer confidence took a nosedive. Both had a negative impact on consumer spending. The real estate market is still undergoing a correction. The EAA believes that the market could yet again experience several corrections – particularly in the commercial construction sector. Overall, there are no expectations that the US economy will experience a sweeping recovery for the time being. Although the EAA does not rule out a double-dip recession, this presently does not appear likely.

The eurozone is still a long way off from a self-sustaining recovery. Some countries have already taken steps to consolidate their public budgets; by their very nature, such steps have a slowing effect on economic growth. In light of this, the most recent GDP figures reflect a highly varied development. While the economies hardest hit by the government debt crisis are either still locked in recession or have struggled to climb out of recession but are now barely growing, the economy is already back on track in other countries.

In Germany especially, the economy is increasingly recovering from the recession. In the second quarter of 2010, the German economy expanded by 2.2% compared to the first quarter, making Germany one of the fastest-growing economies. Once again, exports were the driving force behind this development. Above all, trade with Asia's emerging markets and the US increased markedly, compensating for the weakness of European foreign demand stemming from the EMU debt crisis. Since the weaker euro is making Germany more competitive outside the eurozone, exports can be expected to increase dramatically this year. The dynamic growth in exports can be expected to lead companies to engage in major investing activities. Given the fierce competitive pressure and the fact that capacity utilisation remains low, investments were initially focused on measures to modernise equipment and streamline operations. As capacity utilisation gradually increases, the focus of investment activity is likely to shift more and more to expansion projects. The labour market, and consumer spending with it, will benefit from this trend. All in all, Germany's annualised economic output is expected to increase by 3.3%. However, Germany still has a long way to go before GDP is back up to pre-crisis levels.

In many countries, inflationary pressure remained moderate. Only higher quoted prices for crude oil and other commodities are causing prices to rise slightly. This trend opened the door for the major central banks to begin rolling back the measures taken to increase liquidity, without raising interest rates. For example, the ECB kept its key rate at 1%, initially easing its refinancing operations back to maturities of up to three months. However, after the euro bailout was resolved it deviated from this policy, offering another six-month tender in mid-May. In addition, it announced another full allotment for the three-month operations up to and including September.

In all likelihood, inflation risks will remain manageable. The EAA therefore does not expect the ECB to increase its key lending rate any time soon. As a consequence, interest rates can be expected to remain low, especially given the persisting crisis of confidence in the European Monetary Union.

Structural developments

The EAA was formed on 11 December 2009, with its headquarters in Düsseldorf. It is a structurally and financially independent public law entity with partial legal capacity operating under the umbrella of the Financial Market Stabilisation Authority (*Bundesanstalt für Finanzmarktstabilisierung* – FMSA). The statutory basis for its formation is comprised by the German Financial Market Stabilisation Fund Act (*Finanzmarktstabilisierungsfondsgesetz* – FMStFG) of October 2008; the legislation amending it, the Financial Market Stabilisation Amendment Act (*Finanzmarktstabilisierungsergänzungsgesetz*) of April 2009; and the Act to Continue Financial Market Stabilisation (*Finanzmarktstabilisierungsfortentwicklungsgesetz*) of July 2009.

The EAA has accepted the task of winding up the risky assets transferred to it by WestLB. This serves to stabilise not only the Landesbank, but the entire financial market as well. The EAA conducts its transactions in accordance with economic principles under the condition of pursuing its winding up strategy in a risk minimising way. It is subject to regulation by the FMSA as well as – in accordance with section 8a (5) FMStFG – to partial regulation by the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – BaFin), which ensures regulatory compliance with banking law provisions. The EAA is not a credit institution within the meaning of the German Banking Act (*Kreditwesengesetz* – KWG) nor does it conduct business that requires a license pursuant to EU Directive 2006/48/EC of 14 June 2006. Although it is subject to regulation by BaFin, it is not fully regulated as a credit institution. The Agency was entered into the commercial register at the Local Court (*Amtsgericht*) of Düsseldorf on 23 December 2009.

The EAA's work is carried out on the basis of its charter, as well as the definition of its winding-up and risk strategy. In accordance with its principles of risk minimisation and a conservative financial strategy, a winding-up plan was prepared prior to the transfer of assets, and approved by the FMSA. All governing bodies and decision makers of the EAA are required to act in accordance with this plan. It sets out the measures which the EAA intends to take to wind up its portfolio according to a breakdown of assets by sub-portfolio and three standard strategies: The possible alternatives to wind up the portfolio can be divided in the disposal (sale) of assets prior to their maturity, by holding them to maturity, or by restructuring them.

The winding-up plan was prepared with prudent business judgment with the aim of avoiding the need for subsequent capital injections. It is reviewed at regular intervals and adjusted as need be. To document its progress in winding up its portfolio, the EAA draws up regular wind-up reports on the reduction of the exposures in its portfolio and on the economic effects thereof on the winding-up plan.

The following stakeholders have stakes in the EAA's share capital: The State of North Rhine-Westphalia (NRW, 48.2%); the Rheinische Sparkassen- und Giroverband (RSGV) and the Sparkassenverband Westfalen-Lippe (SVWL), approximately 25% each; and the Landschaftsverband Rheinland (LVR) and the Landschaftsverband Westfalen-Lippe (LWL) approximately 0.9% each (hereinafter referred to as the "Liable Stakeholders").

The governing bodies of the EAA are the Managing Board (*Vorstand*), the Supervisory Board (*Verwaltungsrat*) and the stakeholders' meeting (*Trägerversammlung*). The Managing Board consists of at least two members appointed by the Supervisory Board with the FMSA's approval for a maximum term of four years. Members of the Managing Board may be reappointed. The Managing Board manages the operations of the EAA and represents the agency in and out of court. The Supervisory Board consists of eleven members who consult with and advise the Managing Board and supervise its management of operations. The five institutions specified above which hold a stake in the EAA's share capital form the stakeholders' meeting. The stakeholders' meeting appoints the members of the Supervisory Board and adopts the annual financial statements of the EAA.

By 30 April 2010, a winding-up portfolio with a nominal value totalling approximately € 77.5 billion was transferred to the EAA in two tranches:

- A first portfolio comprising approximately € 6.2 billion in structured securities from the "Phoenix" portfolio and the associated refinancing was spun off from WestLB in December 2009, with retroactive effect to 1 January 2009.

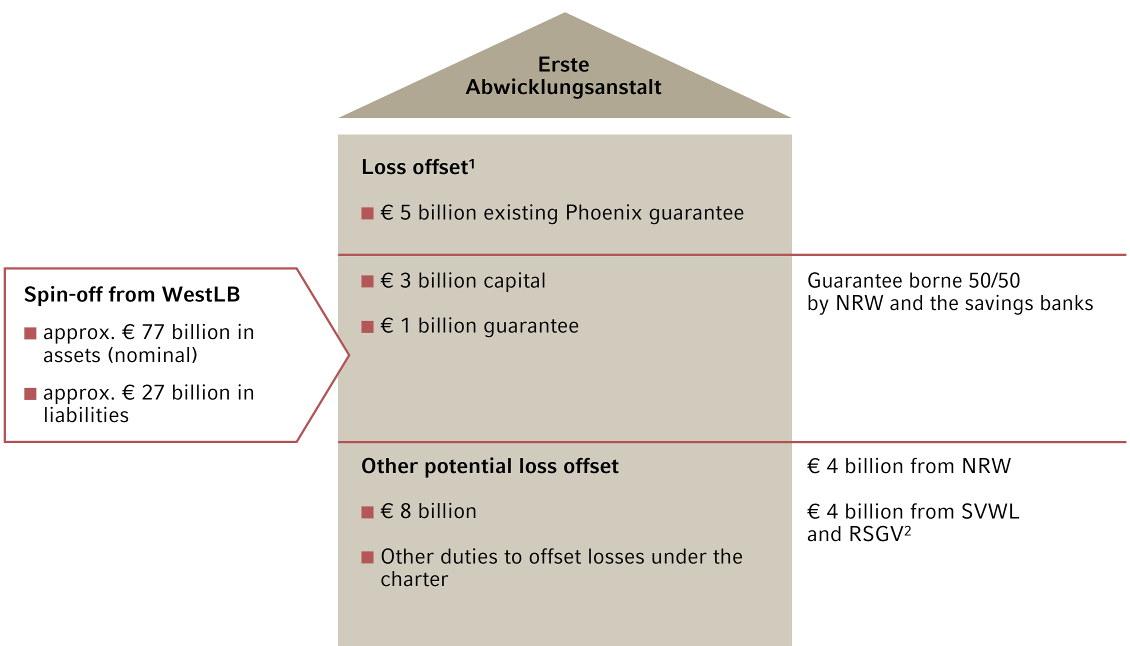
- The larger portfolio, also referred to as the "principal portfolio" comprising in particular loans, securities, structured securities, long-term equity investments worth approximately € 71.3 billion, and certain liabilities was transferred as planned to the EAA on 30 April 2010, with retroactive effect to 1 January 2010.

The portfolio assets were transferred in accordance with the provisions of the FMStFG via four different channels: spin-off, sub-participation, asset disposal and guarantee. The channel used to transfer the portfolio assets was selected based on the different legal, regulatory, and fiscal provisions of the countries and supervisory authorities having jurisdiction over the relevant transaction. In every case, the objective was to minimise transfer risk. In the end, all channels used resulted in the full and complete transfer of the economic risks of the financial instruments from WestLB to the EAA.

The EAA's share capital amounts to € 500,000. The spin-off generated € 3.1 billion in equity for the EAA. This equity was made available to the EAA primarily to cover the expected risks of losses resulting from the transfer of the risk exposures from WestLB.

In addition to the EAA's equity base, the Liable Stakeholders' duty to offset losses incurred by the EAA is of key significance in determining its creditworthiness. The Liable Stakeholders are severally liable to the EAA to offset all losses incurred by the EAA in proportion to their respective stakes. In order to satisfy their duty to offset losses, they have an obligation to provide the EAA upon first demand such amounts at such times as are necessary in order to ensure that the EAA is always in a position to meet its liabilities as they fall due, even after the liquid asset component of its equity capital has been exhausted. The EAA, in turn, must assert such claim against the Liable Stakeholders to have its losses offset in the amount necessary and in due time prior to any imminent insolvency so as to ensure that the EAA is always in a position to pay its debts as and when they fall due. The duty to offset losses on the part of the Liable Stakeholders RSGV and SVWL is capped at € 4.5 billion and cannot be increased under any circumstances, irrespective of the legal reason. The State of North Rhine-Westphalia (NRW) has assumed liability for the fulfilment by RSGV and SVWL of their respective duty to offset losses up to this cap of € 4.5 billion. If the share of losses attributable to RSGV and SVWL exceeds the total amount specified above, the FMSA, acting on behalf of the Financial Market Stabilisation Fund (FMS), and the State of North Rhine-Westphalia agree to assume the liability to offset losses attributable to the RSGV and SVWL.

Duties to offset losses within the EAA



[1] Contribution of the regional authorities (*Landschaftsverbände*) omitted for the sake of simplicity
[2] Savings banks save the total amount of the guarantees attributed to them over a period of 25 years

The EAA's funding is secured primarily by the nearly complete transfer of WestLB's own emissions and deposits, which are backed by guarantees and have fixed terms. Moreover, the EAA has already entered into its first capital market, money market, securities repurchase and securities lending transactions. Going forward, the EAA will continue to obtain funding by issuing bearer bonds, promissory note loans and registered bonds, by borrowing short-term on the interbank market and through repo transactions. The good ratings received from Moody's (Aa1), Standard & Poor's (AA-) and Fitch Ratings (AAA), as well as the duty to offset losses on the part of the Liable Stakeholders form the foundation for EAA's successful presence on the capital market – a precondition for successfully reducing WestLB's total assets as a stabilisation measure.

The EAA prepares single-entity financial statements in accordance with the German Commercial Code (*Handelsgesetzbuch* – HGB) and is exempted from the duty to prepare consolidated financial statements. Since the EAA holds material interests in EAA Covered Bond Bank plc and EAA Bank Ireland plc in Ireland and in the Basinghall companies in England, it has included these entities in its risk reporting.

The EAA's organisational structure is oriented toward assuring its key management and control functions. It has outsourced all other business activities to third-party service providers, including WestLB. The EAA has entered into a co-operation agreement with WestLB with an initial term of three years. WestLB assists the EAA in performing portfolio management duties and all related activities. The Portfolio Exit Group (PEG) serves as a central interface within WestLB for this activity. This area is kept strictly separated from the remaining departments at WestLB and operates solely on the EAA's behalf. However, decision making authority always remains with the EAA itself.

The first six months of 2010 were characterised by the EAA's structural set-up and organisation. During that time, the 11-member Supervisory Board was appointed, and Mr. Matthias Wargers and Mr. Markus Bolder took up their positions on the EAA's Managing Board. Moreover, staff and organisational structures were established during the abridged 2009/2010 financial year to assure the necessary management functions such as the portfolio management, risk management, finance and financial control and treasury functions. Flat hierarchies facilitate swift decision making, which enables the agency to deal efficiently with critical start-up issues in the early stages. The EAA's Managing Board aims to have filled all key staff positions by the end of 2010. Moreover, during the first half of 2010, the EAA laid the groundwork necessary to operate on the capital market and to issue its own debt.

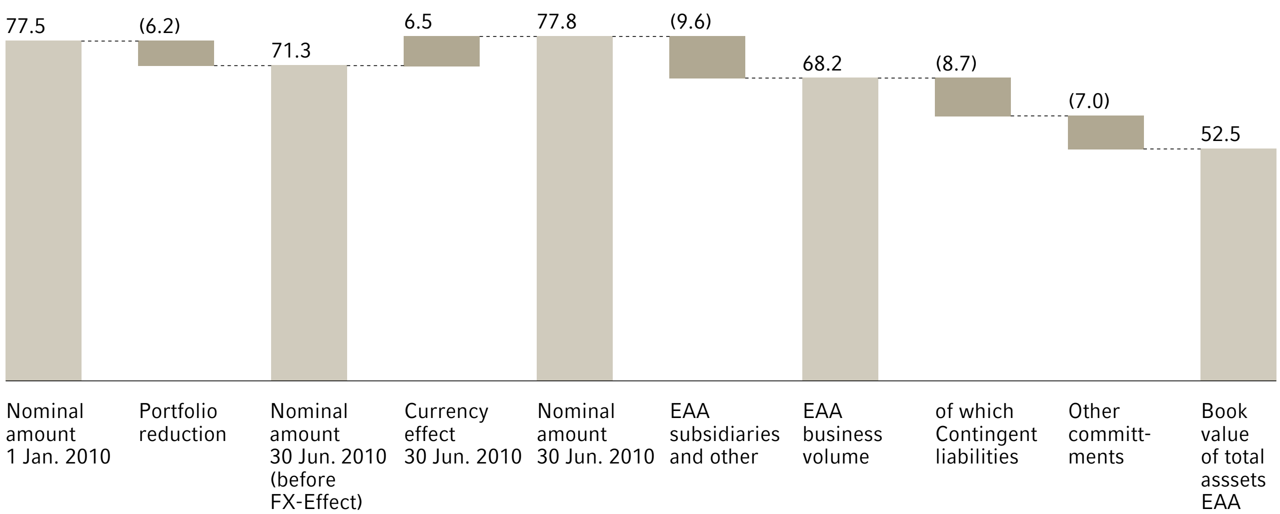
Wind-up report

The figures and developments discussed in this chapter are regularly reported to the FMSA as part of its supervision of the EAA. They relate to the entire risk portfolio transferred to the EAA and its subsidiaries, regardless of whether these figures are recorded on or off the balance sheet in the EAA's single-entity financial statements or whether they are held via subsidiaries. The assets held by subsidiaries are included in this report based on the monthly reports of the companies. The carrying amounts attributable to the subsidiaries were not subject to the statutory audit of the EAA's annual financial statements as at 30 June 2010. It is therefore not possible to reconcile the amounts reported below to the annual financial statements of the EAA, particularly with respect to the progress achieved in winding up its portfolio.

The total nominal volume of the overall portfolio transferred to the EAA is € 77.5 billion (as at 1 January 2010; also contains book values of guaranteed assets held by subsidiaries of the EAA, as well as contingent liabilities and other obligations). For purposes of portfolio management, this volume was broken down into three sub-portfolios: Lending Operations, Tradable Securities, and Structured Loans. To the greatest extent possible, the individual portfolio assets were allocated to specific sectors or product groups.

The following is an overview of the development of nominal amounts and their reconciliation against total assets:

Reconciliation of nominal volume transferred and book value of total assets as at 30 June 2010
(€ billion)



Due to the fact that the principal portfolio was transferred to the EAA with effect from 1 January 2010, this date serves as the previous reporting date for comparison purposes in each of the following charts and tables.

Winding-up strategies

Under the business plan*, the assets recorded in the business plan are broken down in accordance with the three stipulated standard strategies:

- "Sell"
- "Hold"
- "Restructure"

Winding-up strategy

	1 Jan. 2010 € billion	30 June 2010 € billion
Sell	21.1	19.6
Hold	46.5	41.0
Restructure	9.9	10.7
Total	**77.5**	**71.3**

The "Sell" category includes securities and loans with a volume of approximately € 19.6 billion which are held for disposal in the current or subsequent years. Assets are categorised as "Sell" based on the assumption that it will be possible to sell the asset in the medium or long term at or near its carrying amount because the market environment has improved.

Assets categorised as "Restructure" are held on the "EAA Watchlist": The credit quality of such assets is subject to close observation. The rest of the portfolio falls under the "Hold" category.

Strategies and classifications are reviewed on a regular basis and documented once per annum if the winding-up plan is modified.

Progress report on winding up

Under the EAA's management philosophy, the progress made in winding up its portfolio is assessed both on the basis of the reduction achieved in the portfolio's nominal volume before exchange rate effects (i.e., at constant exchange rates as at 31 December 2009) as well as in terms of the impacts of such reductions on the business plan. The latter shows the deviation in earnings from that stipulated in the business plan, which is calculated in advance of every transaction for purposes of approval. The effect on the business plan is measured given the effect on the income statement (accounting profit and other P&L relevant effects), the present value of forgone net interest income (incl. funding) and the present value of expected losses.

The EAA's portfolio management is guided primarily by the business plan. Before approval is granted to enter into any planned transaction, the present value of proceeds from every transaction is compared against the carrying amount, and the effect of such transactions on the business plan is calculated. If the present value and effects of the transaction are neutral or positive, the winding-up target is deemed to have been met or even exceeded.

* In the following, "business plan" refers to a further clarification and implementation of the winding-up strategies

For the current reporting period for the abridged 2009/2010 financial year, the EAA generated a positive business plan effect of € 20 million from disposals and early redemptions. This figure consisted in particular of the partial redemption of the Phoenix securities (€ 8 million) and several early redemptions and disposals from the lending portfolio. Other portfolio management measures employed – particularly those intended to account for allowances for losses on loans and advances – resulted in a negative business plan effect during the reporting period. However, with all effects considered, the EAA generated a positive business plan effect overall.

Given constant exchange rates (as at 31 December 2009) as a basis for calculations, the EAA successfully wound up € 6.2 billion in assets, reducing nominal volume by 7.9% to € 71.3 billion as at 30 June 2010. Approximately € 3 billion of this reduction was achieved through actively managed transactions such as disposals or early redemptions. The remainder is due to the expiration of scheduled maturities. After factoring in exchange rate effects, nominal volume as at 30 June 2010 amounted to € 77.9 billion, due primarily to the 17.4% increase in the value of the US dollar as against the euro.

The table below shows a breakdown of the portfolio by asset class and whether the assets are held directly or indirectly by the EAA, as at 1 January 2010 and 30 June 2010. All figures in the analysis that follows are shown with exchange rates as at 30 June 2010. The associated derivatives used as hedges are not included in these figures.

	Nominal Volume (at exchange rates as at 31 Dec. 2009)				Nominal Volume (at exchange rates as at 30 June 2010)	
Sub-portfolio	**Nominal 31 Dec. 2009 € million**	**Nominal 30 June 2010 € million**	**Change as at 31 Dec. 2009 € million**	**in %**	**Nominal 30 June 2010 € million**	**FX-Effect[1] € million**
Lending operations	**30,480**	**26,429**	**(4,051)**	**(13.3)**	**29,091**	**2,662**
Public finance	11,241	10,205	(1,036)	(9.2)	10,647	442
Other negotiable securities	6,749	6,961	212	3.1	7,167	206
Tradable securities	**17,990**	**17,166**	**(824)**	**(4.6)**	**17,814**	**648**
Phoenix	22,863	21,762	(1,101)	(4.8)	24,477	2,715
EUSS[2]	2,768	2,656	(112)	(4.0)	2,656	–
ABS	3,364	3,304	(60)	(1.8)	3,826	522
Structured loans	**28,995**	**27,722**	**(1,273)**	**(4.4)**	**30,959**	**3,237**
Total	**77,465**	**71,317**	**(6,148)**	**(7.9)**	**77,864**	**6,547**
of which EAA	58,740	54,191	(4,549)	(7.7)	59,508	5,317
of which EAA subsidiaries	11,539	10,640	(899)	(7.8)	11,434	794
of which guaranteed assets	7,186	6,487	(699)	(9.7)	6,922	435

[1] Change in nominal volume due to exchange rate effects
[2] European Super Senior

The reduction of the lending portfolio was driven by measures taken in commodity finance, public finance and energy.

Employees

One of the crucial tasks facing the EAA during the abridged 2009/2010 financial year was to rapidly prepare itself to commence operations. The objective is to have filled all key staff positions by the end of the calendar year: Portfolio Management, Portfolio Strategy, Credit Risk Management, Treasury, MIS Reporting & Controlling, Tax and Finance, board office staff, Legal Compliance/Internal Audit and IT and Organisation. Thus far, the EAA has hired 14 employees, of which nine including the Managing Board had taken up work by 30 June 2010.

The recruiting process has not yet been completed and is being pursued with the same intensity as before. Expertise, professional experience, market connections, entrepreneurial drive and the desire to work in a dynamic atmosphere with new prospects are the most important hiring criteria which will enable the EAA to fulfil its mandate.

EAA's network

The EAA is headquartered in Düsseldorf and does not maintain any further offices. The EAA also holds a stake in foreign subsidiaries which have hired their own employees.

Earnings situation, cash flows and financial position

Earnings situation

The EAA's earnings situation in the abridged 2009/2010 financial year was marked by € 824.2 million (net) in allowances recognised in respect of losses on structured securities and € 431.5 million (net) in allowances recognised in respect of losses on loans and advances. The winding-up plan for the first financial year anticipated that expenses would be incurred in relation to allowances for risks. These were offset by net interest income amounting to € 206.8 million and net fee and commission income of € 18.4 million. General and administrative expenses during the EAA's ongoing set-up amount to € 24.9 million. In total, EAA reported a net loss for the financial year of € 1,048.0 million as at 30 June 2010.

Had the write-downs in relation to the deterioration in the credit quality of Phoenix and other structured securities not been recognised under net income from investment securities, the income statement would have shown a marginal net profit for the year. These write-downs were called for under the winding-up plan as a matter of principle.

The income statement below is presented in the format used internally by the EAA. Accordingly, write-downs on investment securities in relation to issuer default risk are reported as a component of the allowance for losses on loans and advances recognised to account for acute counterparty credit risk.

Erste Abwicklungsanstalt Income Statement for the period from 11 December 2009 to 30 June 2010

		11 Dec. 2009–30 June 2010 € million
Net interest income		206.8
Net fee and commission income		18.4
Total other operating income/expenses		0.6
Personnel expenses		– 0.6
Other administrative expenses		– 24.3
of which: expenses for service level agreements with WestLB	– 18.2	
Allowances on losses for loans and advances		– 1,255.7
of which: allowances for losses on structured securities	– 1,060.5	
Net income from investment securities and long-term equity investments		6.8
Earnings before tax		**– 1,048.0**
Taxes on income		0.0
Net loss for the year		**– 1,048.0**
Net accumulated losses		– 1,048.0

Net interest income

Net interest income amounted to € 206.8 million and consisted of net interest (€ 203.6 million), as well as current income from equities and other non-fixed-income securities (€ 2.8 million) and other long-term equity investments (€ 0.4 million). € 473.6 million of interest income was derived from lending and money market transactions and € 369.6 million from fixed-income securities. This was offset by € 639.6 million in interest expense.

Net fee and commission income

Net fee and commission income amounted to € 18.4 million and consisted primarily of € 12.3 million in guarantee fees and commissions and € 5.6 million from lending and syndicated lending operations. Guarantee fees and commissions were attributable primarily to guarantee fees paid by WestLB for assets guaranteed by the EAA. In contrast to the other transfer channels, in cases where the EAA assumes a guarantee, the guaranteed assets remain on WestLB's balance sheet (carrying amount as at 30 June 2010: € 6.6 billion). As a result, WestLB then continues to recognise income from the guaranteed assets on its income statement. However, such income is offset by refinancing expenses and expenses for guarantee fees paid by WestLB to the EAA for assuming the default risk.

General and administrative expenses

General and administrative expenses for the abridged 2009/2010 financial year amounted to € 24.9 million, of which € 0.6 million was attributable to personnel expenses. Other administrative expenses amounted to € 24.3 million, due primarily to the service level agreement with WestLB, pursuant to which WestLB provides the EAA assistance in managing its portfolio and all associated duties (€ 18.2 million), consulting fees and legal expenses (€ 5.7 million) stemming mainly from the formation and establishment of the EAA.

Allowance on losses for loans and advances

An amount of € 1,255.7 million (net) was allocated as an allowance for losses on loans and advances, € 824.2 million of which in relation to write-downs for structured securities, mainly from the Phoenix portfolio. The winding-up plan had already anticipated expenses in relation to allowances for risks from structured securities. For a more detailed breakdown, please refer to the section entitled "Problem loans and allowances for losses on loans and advances".

Financial position and issuing activity

Key tasks in the funding process

The EAA is an issuer of securities and operates on the capital market as an independent legal entity with its own rating. The EAA commissions outside financial institutions to distribute its issues on the capital market. The EAA's management and governing bodies reach strategic decisions regarding the issuing schedule, issuing prospectus, markets and pricing, while the portfolio manager (PEG) and commissioned financial institutions act as consultants.

The portfolio manager calculates the EAA's liquidity needs in preparation of the strategic and operational decision making process. It factors in the term structure, analyses the market situation and suitability of an issue, and prepares such analyses as a basis for the decision makers mentioned above.

The EAA draws up a long-term issuing strategy, which is subject to regular reviews and modified as necessary – in consultation with outside banks and in light of investor feedback. The documentation for the issuing prospectuses is prepared jointly with the commissioned financial institutions.

Current volume of funding

The EAA is currently funded through an existing portfolio of guaranteed issues by WestLB which were transferred to it by way of spin-off, as well as through new capital market, money market, securities repo and securities lending transactions. Subsequent to the spin-off, a portion of the portfolio was refinanced via an equalization claim vis-a-vis WestLB, which was successfully replaced as at 30 June 2010. Prior to that date, the EAA had entered into new capital market transactions in the amount of approximately € 16 billion, which were used to honour the equalization claim and to refinance maturing issues. The primary partner in this transaction was initially WestLB, which was set to be replaced shortly thereafter not least due to the European Commission's requirements relating to the reduction of its total assets. The issuing volume was calculated based on the total capital commitment, factoring in the winding-up plan and the market environment. To date, all new issuances on the capital market by the EAA have been denominated in euros. Foreign-denominated funding requirements are currently covered through securities repo and money market transactions.

Issuing activity, the term structure, progress made in winding up the portfolio and the market environment are regularly reviewed and the issuing schedule adjusted accordingly.

The EAA plans to establish an issuing programme exclusively for institutional investors in order to broaden its investor base. To that end, it plans to hold investor roadshows in Germany and abroad. In addition, the EAA aims to enter into master agreements for derivatives and securities repo transactions with further counterparties in order to improve its access to these products. The EAA will also contact additional money market participants so as to enable it to secure liquidity at short notice from a broad base. EAA's affiliates are actively included in its liquidity planning and management ensuring optimal access to liquidity.

Financial position

The EAA's total assets amounted to € 52.5 billion as at 30 June 2010. Its business volume, which also includes off-balance sheet items, amounted to € 68.2 billion.

Assets

	30 June 2010 € billion
Loans and advances to banks	15.8
Loans and advances to customers	15.8
Securities	18.9
Long-term equity investments and shares in affiliates	0.7
Other assets	1.3
Total assets	**52.5**

Liabilities and equity

	30 June 2010 € billion
Deposits from banks	11.5
Deposits from customers	4.7
Debt securities in issue	32.4
Provisions	0.1
Other liabilities	1.7
Equity	2.1
Total liabilities and equity	**52.5**
Contingent liabilities	8.7
Other obligations/loan commitments	7.0
Business volume	**68.2**

Lending business

The lending business comprises receivables, payment obligations arising from irrevocable loan commitments and guarantees. A portion of the contingent liabilities results from guarantees for certain assets held by WestLB or its subsidiaries which were not transferred to the EAA.

Receivables also include registered and other non-negotiable beaver debt securities as well as time deposits and mortgage-backed loans from the retail banking business.

"Loans and advances to banks" includes € 12.3 billion in return claims from securities lending transactions, of which € 0.5 billion with registered bonds.

	30 June 2010 € billion
Loans and advances to banks	15.8
Loans and advances to customers	15.8
Contingent liabilities	8.7
Other obligations/loan commitments	7.0
Total lending business	**47.3**

Securities

The portfolio of bonds and other fixed-income securities amounted to € 18.8 billion at the balance sheet date and was classified in its entirety under investment securities. Derivative transactions have been executed to hedge a large portion of this portfolio against interest rate and currency risk. As at the balance sheet date, the EAA had lent € 11.8 billion in bonds and other fixed-income securities to WestLB, using these transactions to shore up its liquidity base. The corresponding return claims are reported under loans and advances to banks.

Long-term equity investments and shares in affiliates

Through the spin-off, the EAA acquired an interest in various WestLB companies. At the balance sheet date, the carrying amount of the equity investments was € 0.1 billion and shares in affiliates amounted to € 0.6 billion.

The carrying amount of shares in affiliates is mainly characterised by equity investments in EAA Bank Ireland plc and EAA Covered Bond Bank plc, both domiciled in Dublin, Ireland. The assets held in both banks are included in the winding-up portfolio.

During the abridged 2009/2010 financial year, further contributions were paid in to equity investments in individual private equity funds due to existing contractual contribution obligations.

Deposits from banks and customers

Deposits from banks amounted to € 11.5 billion as at 30 June 2010. Of that figure, € 6.9 billion was attributable to overnight deposits and term money, and an additional € 4.3 billion to registered securities. Going forward, funds will no longer be raised through overnight deposits and term money, but rather through the issue of bonds. Overall, € 4.4 billion in deposits from banks were backed by guarantees.

Deposits from customers amounted to € 4.7 billion (of which € 4.6 billion was backed by guarantees) and consisted almost exclusively of registered bonds.

Issuing business

Debt securities amounted to € 32.4 billion as at 30 June 2010. This included securities with a nominal volume of € 16.8 billion that had originally been issued by WestLB and are backed by guarantees.

As at 30 June 2010, the EAA has issued € 15.6 billion in new securities. For additional information on the EAA's issuing activities, please refer to the Risk Report.

Provisions

Provisions were recognised largely in relation to the lending business.

Equity

The EAA's share capital was increased by € 0.4 million in connection with the transfer of the risk exposures, and amounted to € 0.5 million as at 30 June 2010. Moreover, the spin-offs from WestLB also resulted in a € 3.1 billion capital reserve. Factoring in the net accumulated loss, equity under HGB accounting amounted to € 2.1 billion as at 30 June 2010.

Summary of the business situation in 2009/2010

As shown, the net loss for financial year 2009/2010 was primarily a result of effects from the structured loan portfolio. By contrast, the write-downs and wind-up losses in the other risk exposures were offset by operating earnings.

The EAA's financial position is in good order, and its equity amounted to € 2.1 billion as at 30 June 2010. It had sufficient liquidity at all times.

Risk report

As previously explained in the section entitled “Structural developments”, the EAA made substantial progress in setting up and implementing its winding-up plan during the abridged 2009/2010 financial year. The EAA’s winding-up activities focused primarily on reducing the size of the portfolio acquired from WestLB, as well as on mitigating the inherent risks.

The common objective of the Liable Stakeholders and the EAA is to minimise the strategic winding-up risk – specifically the risks arising from the liquidation of the transferred portfolio.

The figures and developments discussed in this section are regularly reported to the FMSA as part of its supervision of the EAA. They relate to the entire risk portfolio transferred to the EAA and its subsidiaries, regardless of whether these figures are recorded on or off the balance sheet in the EAA’s single-entity financial statements or whether they are held via subsidiaries. The assets held by subsidiaries are included in this report based on the monthly reports of the companies. The carrying amounts attributable to the subsidiaries and the associated total figures were not subject to the statutory audit of the EAA’s annual financial statements as at 30 June 2010. It is therefore not possible to reconcile the amounts reported below to the annual financial statements of the EAA, particularly with respect to the progress achieved in winding up its portfolio.

An overview of risk management

Risk management organisation

In accordance with section 8a (5) FMStFG, the EAA is partically subject to the German Banking Act (*Kreditwesengesetz* – KWG). For the EAA’s risk management regime, this means that the bulk of BaFin’s Minimum Requirements for Risk Management (MaRisk) apply mutatis mutandis. The EAA ensures that the key principles anchored in MaRisk are adhered to, specifically the separation of functions and the principle of dual control, in addition to the provisions that apply to outsourcing. However, the EAA is different from commercial banks, and this fact impacts its risk management strategy: Since only defined individual decisions – such as those related to restructuring – require that additional agreements be entered into, the EAA does not have the same management functions as would normally be included under a typical bank’s risk management strategy. Complexity is also reduced by the fact that capital adequacy requirements do not apply and that any potential insolvency on the part of the EAA is excluded. Nevertheless, all parties involved must be risk-conscious to ensure that their duty to offset losses need not be invoked.

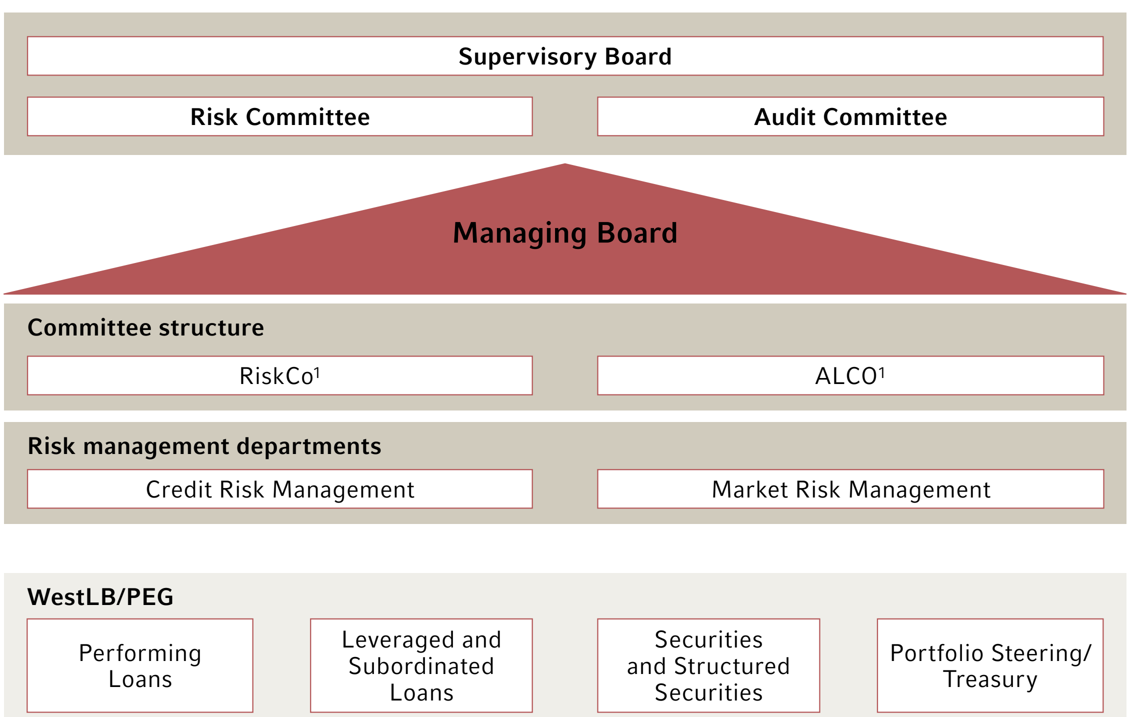
The EAA’s risk management regime is therefore aimed at minimising its strategic winding-up risk. This term is used to describe the risk of falling significantly below the targets set forth in the winding-up plan. Specifically, this means that the EAA has devised individual strategies for five risk categories: credit risk, market risk, liquidity risk, operational risk and other risks. The risk management organisation’s responsibility is to map, monitor, analyse and manage the EAA’s risks using a comprehensive risk reporting system.

The EAA's risk management framework forms the basis of its overarching risk management strategy. It contains the basic principles for risk management, defines the key risk categories in accordance with MaRisk and identifies the core elements of the risk management process. When the key risk categories are defined, it is determined which ones need to be monitored and managed, and which specific processes must be employed to do so.

The overarching risk management strategy is underpinned by specific strategies for managing individual risks while taking into account the relevant strategies for liquidating the portfolio. The EAA's special status has an impact on the scope of its risk management and the requirements placed on it: The core objective is to carefully manage and minimise the risks taken on in the portfolio. By law, no new lending business may be undertaken. As a consequence, certain risk management processes do not apply to the EAA – such as placing limits on new business according to sector or country.

Risk management strategies are reviewed and fine-tuned on an annual basis: The Managing Board formulates the principles relating to risk assumption and management, and discusses these with the Supervisory Board's Risk Management Committee. The Managing Board has established a framework of various interdisciplinary committees throughout the institution to aid it in fulfilling its responsibility to manage risks. For example, it co-ordinates the necessary consultation processes with the Portfolio Exit Group (PEG).

The table below presents the committees responsible for general risk management and the departments responsible for risk management at the EAA:



[1] RiskCo = Risk Committee; ALCO = Asset Liability Committee

As Managing Board Committees, these committees are permanent institutions of the EAA. Each responsible PEG portfolio manager attends committee meetings as a non-voting member. The committees serve as central decision making, management and information-gathering bodies which assist in dealing with strategic issues related to portfolio management and the winding-up plan. This ensures regular and timely communication between the EAA and the PEG before any portfolio-related decisions are taken under the winding-up plan.

The committees implement risk management strategies and methods; they are operational interfaces between the EAA and the PEG at the executive level. Their responsibilities include:

- Risk Committee (RiskCo) – Portfolio management, specifically credit risk management,
- Asset Liability Committee (ALCO) – optimising asset/liability management, monitoring and operational liquidity, funding, interest rate, currency and operational risk management.

The Risk Management department is responsible for the following:

- Credit risk management and control (specifically also credit risk reporting), analysing the EAA's credit risk exposures (in accordance with the winding-up plan), independent assessment of portfolio management decisions and reviewing credit risk thresholds,
- Market risk management – responsible for managing and controlling the EAA's market, liquidity, operational and other risk (specifically risk reporting) as well as its overall risk exposure in line with the winding-up plan and reviewing market and liquidity risk thresholds.

The PEG also leverages its access to WestLB's Credit & Group Risk Control, Credit Analysis and Decision and Market Risk Management departments to assist the EAA in carrying out its risk management activities.

Risk reporting

The only way for risks to be managed and monitored over the long term is if processes are transparent and if the results of risk analyses are communicated in a manner that is conducive to decision making processes. This is why risk reporting represents a core element of risk management. The responsible committees, the Managing Board, the Supervisory Board and its committees are informed independently on a regular basis of all developments that might have a bearing on the institution's risk or earnings situation.

The risk report is an integral component of the monthly wind-up report. In addition, detailed risk analyses are prepared for the meetings of the Risk Committee (RiskCO) and the ALCO as a basis for operational risk management. Based on the requirements formulated by the EAA, the PEG's Portfolio Steering/Treasury function is responsible for preparing the necessary reports and analyses and for quality assurance with the assistance of various departments at WestLB. The EAA's market and credit risk management functions work on the basis of the reports they receive. They review and verify limit thresholds, observe whether they have been exceeded, and monitor open risk exposures. The EAA's general risk situation is assessed on the basis of this process, which will be defined in greater detail and further fine-tuned by the end of 2010.

The Managing Board keeps the Supervisory Board and its committees apprised of the EAA's current winding-up progress and general risk situation at regular meetings. This is done on the basis of the wind-up reports that must be prepared in accordance with the FMStFG, as well as the separate "EAA Status Report" which is adapted to suit the needs of the governing bodies.

Credit risk

Under credit risk, the EAA distinguishes between default risk, migration risk, investment risk, counterparty risk and issuer risk:

- Default risk describes the potential loss incurred if a borrower is unable or unwilling to comply, in part or in full, with its contractual obligations, specifically to make loan payments.
- Migration risk describes a deterioration in a borrower's credit quality resulting from a change in the debtor's creditworthiness, which results in increased expected losses for the exposure.
- Investment risk includes potential losses due to lost dividends, impairments, losses on disposals and a reduction in hidden reserves from the EAA's equity investments.
- Counterparty risk describes the potential loss incurred when derivatives transactions fail to perform or when the creditworthiness of the counterparty to the derivative transaction deteriorates. Counterparty risk also includes settlement risk.
- Issuer risk describes the potential loss incurred when securities contained in a portfolio fail to perform or when the creditworthiness of the counterparty acting as the issuer deteriorates.

Analysis and assessment of credit risk

The EAA's credit risk managers analyse and monitor the loan portfolio and its default and migration risk on an ongoing basis as part of the reporting process arranged with the PEG. In order to assess the impact of systemic crises, the PEG performs regular stress tests which calculate the expected loss stemming from a portfolio-wide (excl. the retail sub-portfolio) ratings downgrade by up to two notches. The amount of allowances for losses on loans and advances, and changes to that amount, are reviewed at the general portfolio level.

Moreover, the portfolio is monitored for concentration risks in individual sub-portfolios, asset categories and regions. These analyses are supplemented by regular reviews of the largest individual exposures.

A central focus of portfolio analysis lies on problem loan exposures. These analyses look at whether the allowances recognised for losses on loans and advances are adequate. The portfolio's largest individual problem exposures are monitored for concentrations.

The EAA assesses credit risk in terms of the entire portfolio as well as in terms of individual exposures. Credit quality and the probability of default are regularly assessed in detail on the basis of the PEG's analyses of financial accounting and ratings, among other things. An orderly process where responsibilities are clearly defined facilitates the identification of problematic exposures and the definition of alternative paths of action, which are presented to the relevant competent bodies of the EAA for their approval. Additionally, such a process ensures that the risk situations of major individual exposures are regularly reviewed.

Management of credit risk

The restructuring of exposures and the sale of loans represent the most important tools used to manage credit risk. Additionally, the EAA can enter into credit default swaps and other credit derivatives transactions to hedge individual exposures. Each exposure is reviewed to determine whether an alternative disposal would be profitable (preferred method).

Default risks are generally limited on the basis of the lines of credit extended as at the date on which such exposures were transferred to the portfolio, meaning that the EAA is able to limit the maximum exposure for individual loan commitments. If borrowers repay portions of their loans, the lines of credit committed and the limits are reduced by a corresponding amount.

Migration risks and ratings distributions within the portfolio are monitored on a regular basis and any ratings downgrades for individual exposures are flagged. In the event of significant downgrades, the relevant bodies decide on the next course of action against the borrower, i.e., in terms of restructuring or selling off the exposure.

Issuer risks are monitored and managed in the same manner as default risks.

The EAA analyses counterparty risks by monitoring and assessing the exposures, using the PEG's calculations. In addition, changes in counterparty ratings are monitored and verified. Master agreements involving netting and symmetric hedges are used to minimise counterparty risks. Any remaining counterparty risks are limited (particularly through master agreements and other hedges).

Counterparty and issuer risks are limited by exposures assumed from individual counterparties and issuers.

The lending business portfolio*

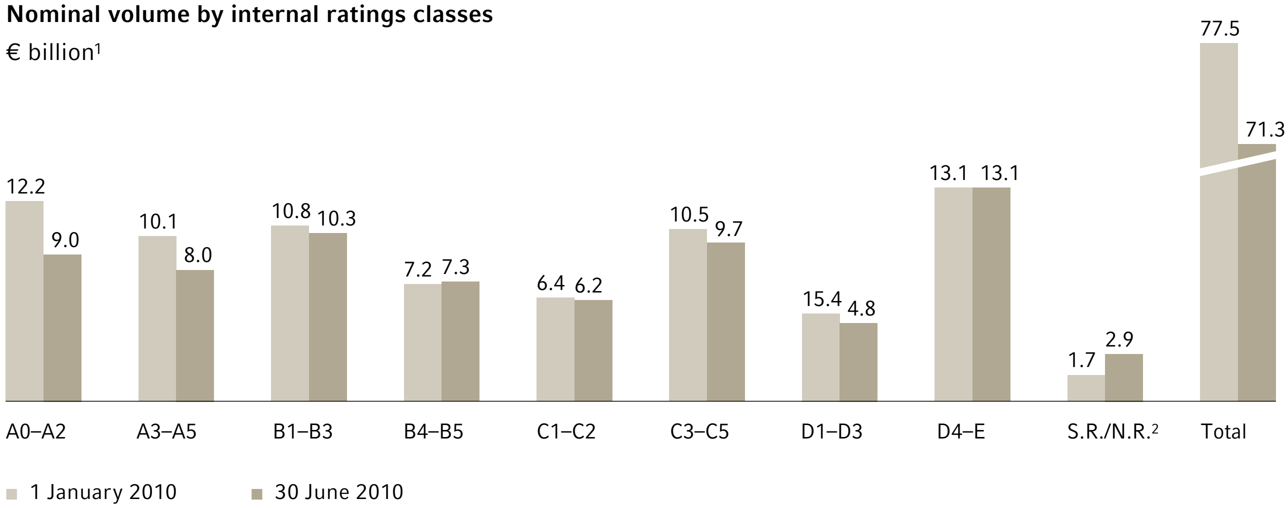
The EAA regularly analyses its credit risk volume in detail so as to identify, analyse, evaluate and internally manage all counterparty risks within its portfolio. It uses a variety of parameters – such as risk type, rating class, term and region – to identify risk concentrations and to take necessary actions to avoid them.

The EAA manages counterparty risks for the entire EAA Group (including subsidiaries): The EAA itself holds 85% of total nominal volume, and the remaining 15% is held by its subsidiaries.

The nominal volume of the overall portfolio declined by € 6.2 billion to € 71.3 billion in the first six months of 2010 (given constant exchange rates as at 31 December 2009). The section entitled "Wind-up report" on page 34 contains more detailed information on the progress made in winding up the portfolio.

Nominal volume by internal ratings classes

€ billion[1]



[1] Excl. exchange rate effects

[2] Special rating/No rating

A good 57% of the overall portfolio consists of investment-grade assets. Just under 24% of the nominal volume carries a very good rating (A0 to A5), and nearly a third is rated in the middle category between B1 and C2.

* All figures calculated at constant exchange rates as at 31 December 2009

The table below presents a reconciliation of the EAA's internal ratings to external ratings:

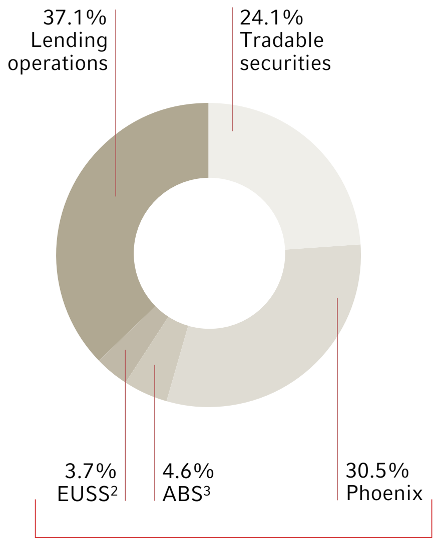
INTERNAL	**EXTERNAL**		
Eaa	**Moody's**	**S&P**	**FITCH**
A0	Aaa	AAA	AAA
A1	Aaa	AAA	AAA
A2	Aa1	AA+	AA+
A3	Aa2	AA	AA
A4	Aa3	AA-	AA-
A5	A1	A+	A+
B1	A1	A+	A+
B2	A2	A	A
B3	A3	A-	A-
B4	Baa1	BBB+	BBB+
B5	Baa1	BBB+	BBB+
C1	Baa2	BBB	BBB
C2	Baa3	BBB-	BBB-
C3	Ba1	BB+	BB+
C4	Ba2	BB	BB
C5	Ba3	BB-	BB-
D1	B1	B+	B+
D2	B2	B	B
D3	B2	B	B
D4	B3	B-	B-
D5	Caa1 bis C	CCC+ bis C	CCC+ bis C
E	C	C	C

EXTERNAL			**INTERNAL**
Moody's	**S&P**	**FITCH**	**WestLB**
Aaa	AAA	AAA	A1
Aa1	AA+	AA+	A2
Aa2	AA	AA	A3
Aa3	AA-	AA-	A4
A1	A+	A+	B1
A2	A	A	B2
A3	A-	A-	B3
Baa1	BBB+	BBB+	B5
Baa2	BBB	BBB	C1
Baa3	BBB-	BBB-	C2
Ba1	BB+	BB+	C3
Ba2	BB	BB	C4
Ba3	BB-	BB-	C5
B1	B+	B+	D1
B2	B	B	D3
B3	B-	B-	D4
Caa1 bis C	CCC+ bis C	CCC+ bis C	D5
C	C	C	D5

The migration from very good ratings to ratings at the middle and lower ranges of the scale was attributable to a variety of reasons: On the one hand, countries of the European Monetary Union were assessed more conservatively. On the other hand, the EAA was able to liquidate portions of its portfolio – primarily the senior tranches of the Phoenix portfolio and the Public Finance portfolio. The lending portfolio remained largely stable. The lower rating classes primarily consist of the subordinated tranches of the Phoenix and EUSS structured loans. The change in the assets classified as "Special rating/not rated" were primarily attributable to the termination of a hedge.

Sub-portfolios by nominal volume as at 1 January 2010

100% = € 71.3 billion[1]

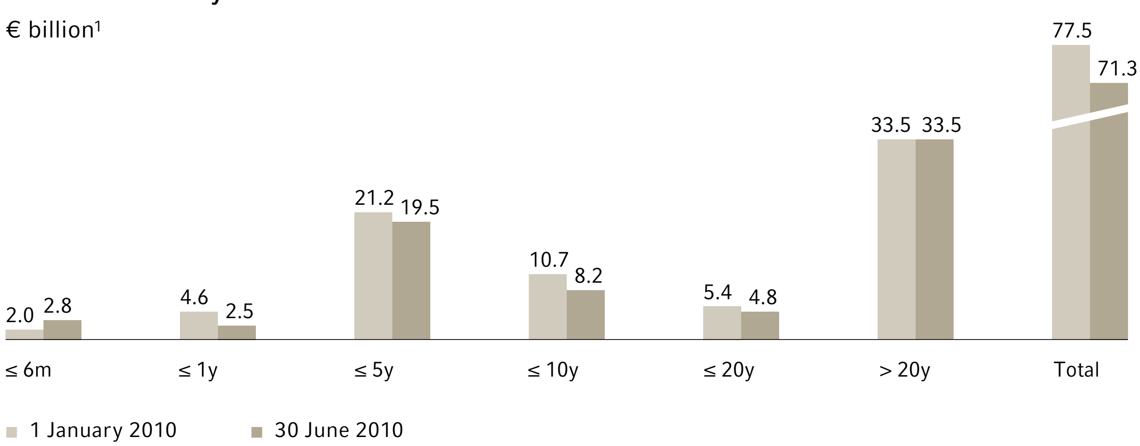


[1] Excl. exchange rate effects
[2] European Super Seniors
[3] Asset backed securities

The EAA Group's portfolio consists of three sub-portfolios: Lending Operations (37.1%, of which 24.1% in the real estate sector, 14.4% to industrial customers, 10.8% in the transportation sector and 10.4% in leveraged finance), Structured Loans (38.8%) and Tradable Securities (24.1%). The largest Structured Credit sub-portfolio is Phoenix, which accounts for 30.5% of structured credit (see page 52 for a detailed breakdown of Phoenix' assets).

Nominal volume by term

€ billion[1]

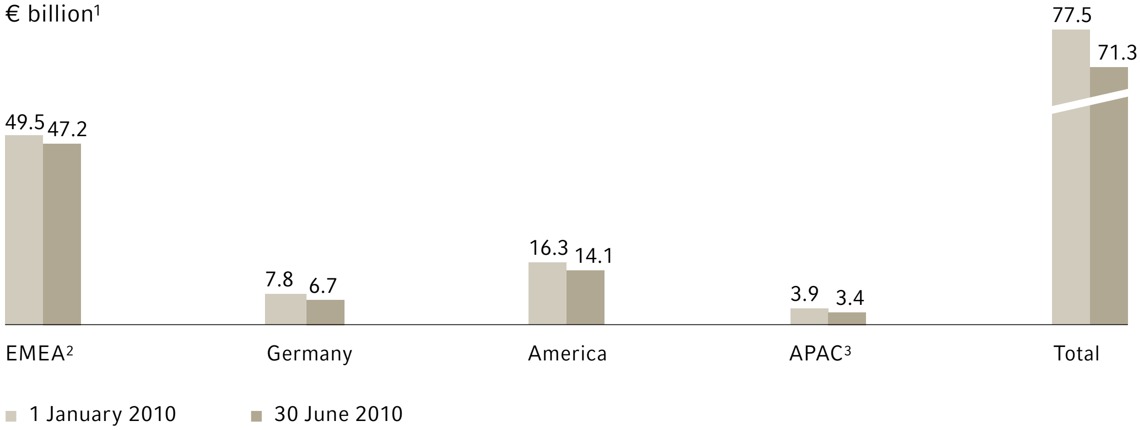


[1] Excl. exchange rate effects

The changes within maturity ranges reflect portfolio transactions executed since the beginning of the year. Accounting for 47% of the portfolio, long-term maturities over 20 years continue to represent the largest portion of the exposures. This focus reflects the long legal terms of structured credit notes – particularly of the Phoenix notes, although these are amortised over their term to maturity. The medium-term exposures with terms shorter than five years are mainly loan commitments (especially industrial customers, banks and leveraged finance).

Nominal volume by region

€ billion[1]



[1] Excl. exchange rate effects
[2] Europe, Middle East and Africa, excl. Germany
[3] Asia Pacific and Japan

The chart above detailing the portfolio's regional distribution identifies the countries in which the individual borrowers are domiciled. According to this breakdown, some two-thirds of nominal volume can be attributed to the EMEA region. This includes the two Irish companies which mainly hold securities issued by public debtors from the EMEA region but which also, to some extent, hold investments in student loans from the US. A further 7% of nominal volume is attributable to German borrowers. The share of loans from North and South America declined by 13% due to early repayments and disposals. Accounting for 3% of total nominal volume, the APAC region is of relatively minor significance.

Phoenix

A significant portion of the EAA's Structured Credit portfolio consists of the ten tranches of the Phoenix Light SF Ltd. securitisation. During Q1 2008, WestLB structured Phoenix as a risk shield in order to free itself from the burdens of the financial market crisis. As part of that process, it spun off a € 22.8 billion portfolio to a special purpose vehicle as at 31 March 2008. The SPV was originally funded by WestLB. At the time of the SPV's establishment, the shareholders of WestLB issued a guarantee of up to € 5 billion to secure it against any actual defaults. However, in the course of 2009, the ratings agencies dramatically reduced Phoenix' rating. When the EAA was formed, WestLB transferred the notes issued in order to fund the SPV, along with other structured loans, to the EAA. The economic risks of the Phoenix structure were thus transferred to the EAA, while the existing guarantee mechanisms remain intact.

Phoenix' US exposure is relatively greater than that of the overall portfolio. The vast majority of the Phoenix portfolio (approximately 89%) is denominated in US dollars and represents US risks, primarily centred on the real estate market. Amortisation charges recognised during the reporting period resulted in a decline in Phoenix' euro-denominated nominal volume to € 21.8 billion as at 30 June 2010.

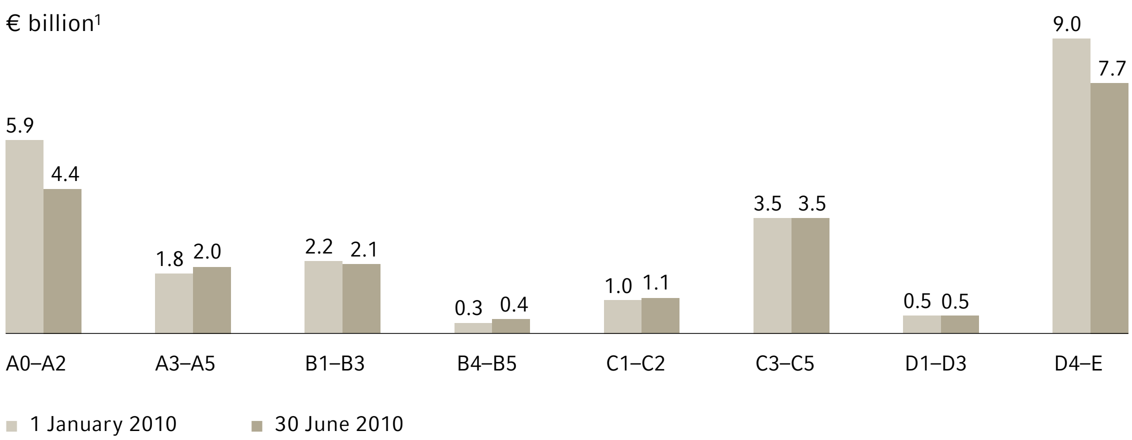
Phoenix Notes Capital Structure

million

Tranche	Amount as at 30 June 2010	S & P Rating	Expected Maturity
Class X	67 EUR	A-	2015
Class A1	14,090 USD	A-	2021
	958 EUR	A-	2017
Class A2	3,102 USD	B-	> 2050
	226 EUR	B-	> 2050
Class A3	2,387 USD	CCC-	> 2050
	701 EUR	CCC-	> 2050
Class A4	1,909 USD	CCC-	> 2050
	181 EUR	CCC-	> 2050
Class B	4,714 EUR	not rated	2022

Internal ratings for Phoenix assets

€ billion[1]



[1] Excl. exchange rate effects

In terms of ratings, the Phoenix portfolio is virtually split down the middle. Roughly half of the portfolio consists of risk exposures with a good investment-grade rating and a consequentially lower likelihood of default. By contrast, the other half of the portfolio has been significantly downgraded over the past three years, and therefore represents a major part of the Phoenix portfolio's default risk.

The EAA is currently involved in in-depth negotiations with the relevant parties concerning how to proceed with the EAA's core portfolio. The aim is to continue to optimise the Phoenix structure so as to comply with the new framework conditions following the transfer of the securities.

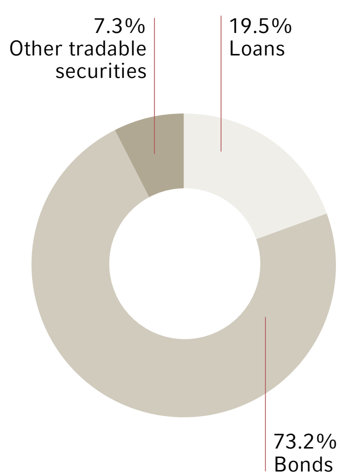
Public finance

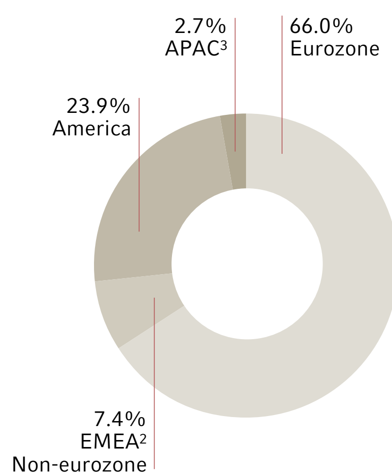
As at 30 June 2010, the portfolio of public-sector customers had a nominal amount of € 12.7 billion. The volume of this exposure is considerably lower than at the beginning of the year (€ 14.7 billion), a 14% decline. This means that the EAA significantly outperformed its target for this sub-portfolio during the reporting period due to the fact that it sold European government bonds and repaid or terminated lines of credit extended to municipal borrowers in the US.

The public sector exposure consists to 81% of tradable securities, specifically bonds issued in EU member states. The remaining 19% consists of acquired loan transactions, mainly with federal, state or other municipal institutions in North America.

Public Finance exposure by product and region as at 30 June 2010

100% = € 12.7 billion[1]





[1] Excl. exchange rate effects
[2] Europe, Middle East and Africa, excl. Germany
[3] Asia Pacific and Japan

As at 30 June 2010, the EAA's exposure to government and other public borrowers in Portugal, Italy, Greece, Ireland and Spain amounted to € 6.3 billion (of which € 3.8 billion attributable to the Irish subsidiaries) and was thus virtually the same as compared to the beginning of the year. On the bond markets, the first half of 2010 was dominated by the erosion in Greece's creditworthiness and the associated widening of spreads. This resulted in a considerably weaker market environment for bonds from Greece and other peripheral eurozone countries. The co-ordinated measures taken by the EU finance ministers and the IMF included a bailout totalling € 750 billion, which significantly helped to stabilise the bond markets.

These market developments led the EAA to perform a detailed analysis of its public finance portfolio in the first half of 2010 and to define appropriate measures, the implementation of which has already resulted in a reduction in portfolio volume through targeted disposals. Further liquidations and disposals are being reviewed on an ongoing basis.

Investment risks

Investment risks result from the provision of equity and subordinated capital. The EAA's investment risk is primarily rooted in the Irish subsidiaries EAA Covered Bond Bank plc and EAA Bank Ireland plc, as well as the Basinghall companies. These equity investments are centrally managed by the EAA's portfolio managers, with the MIS Reporting & Financial Control department providing financial control assistance. The EAA's Credit Risk Management department performs the backoffice function.

Investment financial control provides continuous analyses of existing and future risks. This information enables the EAA to manage equity investments from a shareholder perspective, and thus in line with the guidelines on equity investment management. Moreover, the key subsidiaries are fully integrated into the EAA's risk management and business administration structure. Equity investments are governed by the EAA and are subject to limitations based on the EAA's approved internal limit system.

Problem loans and allowances for losses on loans and advances

The EAA Global Watch List (EAA GW) is the central system used to capture problem loan exposures. It represents a foundation for managing credit risks and serves as an early warning system as defined in MaRisk. The EAA GW closely monitors individual loan exposures and loan portfolios which have a prominent or increased risk profile and expect or have already experienced disruptions in performance. The watch list also includes all distressed loans in respect of which allowances for losses were recognised due to partial or full default on the part of the borrower.

Allowances for losses on loans and advances/securities

	Additions Write-downs € million	Reversals Write-downs € million	Net Write-downs € million	Other exp./inc. due to risk € million	Total allow. for losses € million
Acute counterparty default risk	**– 1,212.1**	**19.2**	**– 1,192.9**	**182.4**	**– 1,010.5**
Credit risk	– 1,211.1	17.2	– 1,193.9	175.6	– 1,018.3
Country risk	– 1.0	2.0	1.0	0.0	1.0
Other risk	0.0	0.0	0.0	6.8	6.8
Contingent counterparty default risk	**– 245.2**	**0.0**	**– 245.2**	**0.0**	**– 245.2**
	– 1,457.3	**19.2**	**– 1,438.1**	**182.4**	**– 1,255.7**

The decision as to which loan exposures are monitored on the EAA GW depends on defined risk ratios across various categories. The overall database is regularly monitored and maintained. This is the basis from which the EAA provides regular reports to its governing bodies on the current risk situation of these loans, and on the situation regarding allowances on such loans.

The Special Loans Processing function monitors exposures with prominent risk profiles. The Problem Loans Processing function deals with distressed debt, loans with increased risk profiles and loans which have already experienced disruptions in their performance in accordance with MaRisk. The EAA's Special and Problem Loans Processing functions are also performed by the PEG's portfolio managers under service level agreements.

Market risk

In terms of market risk, the EAA distinguishes between interest rate risk, currency risk, equity risk and spread risks:

- Interest rate risk is the risk of a reduction in the interest margin due to changes in market interest rates.
- Currency risk describes losses resulting from a change in foreign currency exchange rates.
- Equity risk consists of potential losses resulting from a decline in prices on the stock markets.
- Credit spread risk describes the loss in value caused by a change in standard risk premiums for exposures carrying fixed premiums (e.g., government bonds in the public finance portfolio).

Due to structure of the portfolio, there are interest rate and currency risks (particularly in relation to the US dollar), which are hedged to a large extent, in accordance with the provisions of the winding-up plan.

Measurement and analysis of market risks

Interest rate risk is analysed every day on the basis of an assessment of PV01, i.e., the effect that a parallel shift in the yield curve by 1 basis point would have on the net present value of the portfolio. This sensitivity is analysed separately for various individual maturity ranges. By segmenting its portfolio in this way, the EAA is able to not only analyse sensitivity to parallel shifts of the yield curve, but also to assess in greater detail interest rate risks given a non-parallel shift. The portfolio is also analysed separately by currency in addition to by maturity range. Additionally, the interest rate risk exposure is also regularly assessed using appropriate stress tests (e.g., parallel shift by one basis point). The EAA also aims to further refine its methods for measuring market risk.

In accordance with its strategic objectives, the EAA aims to reduce its interest rate risk as far as possible. It achieves this objective either by refinancing its debt at matching maturities or by entering into financial hedges and derivatives transactions to reduce its interest rate exposure. Given its activities as a winding-up agency, the EAA always takes up a somewhat longer position on the asset side than on the liabilities side.

Similarly to interest rate risks, currency risks are also analysed on the basis of sensitivity. This is measured on the basis of a change in the portfolio's net present value given a 1% change in the exchange rate for the euro. The strategy set forth in the winding-up plan stipulates that the EAA enters into hedges and refinances debts in matching currencies in order to reduce the majority of its currency risks. In view of the system changeover expected to take place at the end of 2010, the plan is to introduce a limit management system differentiated by key currencies.

Equity risk is of minor significance to the EAA.

Given the EAA's long-term perspective and the applicable accounting policies, short-term changes in credit spreads have no direct influence on the Winding-up Agency. Key loan exposures are monitored individually. Where necessary, a decision is made whether to liquidate certain exposures. Spread risks are not limited.

Managing market risks

In accordance with the winding-up plan, interest rate and currency risks are eliminated to the extent economically feasible. The EAA's hedging activities therefore concentrate primarily on interest rate and currency risks.

Interest rate risk is limited based on sensitivity in all maturity ranges on all currencies translated into euros; i.e., the maximum variability of the total net present values of maturity ranges and currencies is limited. A threshold for interest rate risks was set at changes of € 250 thousand per day in August 2010, and has been monitored since then. The backoffice function monitors this threshold independently. As instructed by the EAA, the PEG prepares regular reports which are sent to the EAA's market risk management function for independent analysis.

Similar to interest rate risk, currency risks are also limited on the basis of overall sensitivity (i.e., sensitivity to all currencies translated into euros). Given the EAA's structure, it is not appropriate to limit the impact on the income statement. The EAA's currency exposures – and hence risk – are primarily affected by provisions and allowances, and particularly by the timing of their recognition. Currency items may be recognised on the balance sheet during the financial year if these have already been hedged in advance of expected provisions and allowances in foreign currencies. Currency items from realised gains and losses are sold off in a monthly process meant to reduce foreign currency risks.

Liquidity risk

The EAA distinguishes between tactical and strategic liquidity risks:

- Tactical liquidity risk is the risk of not being able to generate sufficient liquidity over the short term (time horizon of up to one year) to meet contractual payment obligations.
- Strategic liquidity risk is the risk of not being able to implement funding measures set out in the funding plan on the market, in whole or in part.

The EAA's affiliates are actively included in its liquidity planning and management process so as to ensure optimal access to liquidity.

Thanks to the Liable Stakeholders' duty to offset losses incurred by the EAA and the current credit-worthiness of its guarantors, the EAA has been perceived positively by the capital markets. Therefore, the risk concerning the EAA's funding options on the markets is less material than the risk of systemic market illiquidity.

Measurement and analysis of liquidity risks

In order to assess its liquidity, the EAA analyses its funding position in detail, as well as its liquidity reserve and funding needs. On the liabilities side, liquidity is assessed by type, volume and time horizon of the funding instruments. By comparing the cash flows on the liabilities side with those of the assets side, taking into account derivatives used, the EAA creates a funding matrix detailing its net funding requirements. This funding matrix enables the EAA to monitor both tactical liquidity for maturities of up to one year and long-term, strategic liquidity. Tactical liquidity risk is regularly assessed using stress tests.

Management of liquidity risks

In order to monitor its liquidity risks, the EAA is in the process of implementing its own system for monitoring the progress made in carrying out the funding plan. It also maintains a liquidity reserve. Under its funding plan, the EAA seeks to obtain funding at matching maturities to the greatest extent possible so as to keep replacement risks to a minimum. A significant portion of the EAA's assets is invested in foreign currencies (particularly the US dollar) over the long term, and must be refinanced in a foreign currency. At present, the majority of foreign-denominated assets are refinanced using cross-currency swaps with an average term of two years. Going forward, the EAA expects that it will be able to refinance directly in foreign currencies, hence reducing replacement risk in foreign currencies.

Tactical liquidity risk is limited to a 12-week period. During this period, sufficient net liquidity must be assured, even in the event of a scenario involving a liquidity crisis combined with a ratings downgrade (stress test). The boundaries of the scenario are set by the EAA's ALCO and regularly adjusted as the portfolio is wound up.

The PEG prepares weekly liquidity stress tests for the EAA and processes the results of those tests for the ALCO's meetings. The stress test assumes a reduction in the roll ratios for non-collateralised funding to 70%, a 40% increase in draw-downs on free lines of credit and a default on 7.5% of assets transferred in accordance with guarantees. Limitations on collateralised liquidity and on assets eligible as collateral with central banks are not considered in the stress test. Funding gaps denominated in foreign currencies are translated into euros. As at 30 June 2010, the EAA's liquidity reserve amounted to € 2.3 billion; it was not necessary to draw from that reserve.

The PEG prepares weekly liquidity stress tests involving different scenarios for the EAA and processes the results of those tests for the ALCO's meetings.

The capital commitment statement, which is used to manage strategic liquidity, is prepared each month by the PEG. The PEG also prepares charts and graphs for the EAA's ALCO, as well as the wind-up report for the management and the governing bodies of the EAA and the FMSA. The EAA does not consider it appropriate to limit strategic liquidity risk because the projected cash flows of the structured portfolio depend heavily on the underlying assumptions.

Operational risk

Where operational risks are concerned, the EAA distinguishes between outsourcing risk and other operational risks (including IT risks):

- Outsourcing risk describes potential losses resulting from outsourcing services to third parties. In addition to counterparty default, this also includes the risk that contractually agreed services are not provided, or do not meet the stipulated standards of quality.
- Other operational risks cover all risks arising from the failure of internal processes and systems, human error or external events (such as inadequate data quality, procedural errors, insufficient project management).

Measurement of operational risks

The EAA's market risk management function is also responsible for the operational risk framework and its tools and guidelines, as well as for managing these risks. The EAA's MIS Reporting & Financial Control department bears responsibility for measuring and assessing the performance of external service providers.

The EAA's operational risk management function pays particularly close attention to risks from outsourcing. Specifically, it has launched its own PEG tracking and control system to monitor service quality, adherence to processes, expenses and human resources development. The objective is to constantly improve on processes, structures and performance delivery.

Other operational risks are analysed ex ante and ex post. The EAA's portfolio managers assist in analysing and measuring operational risks, and the EAA has set up a loss database, which is used to prepare an annual risk inventory based on the available statistical data on the types, amounts and causes of losses. These analyses are used to formulate measures to manage key risk drivers. Computerassisted analysis also enables the EAA to develop operational risk ratios which can be used to establish an early warning system.

Management of operational risks

The individual departments of the EAA bear the primary responsibility for managing operational risks. Department heads receive support in this task from the EAA's market risk management function and from the Operational Risk Management section of WestLB's Credit & Group Risk Control department.

Operational risks are monitored by way of notification obligations. These notification obligations require that fixed contact persons be notified of risks using standardised forms and processes, depending on the loss amount. Measures taken by the EAA's management as a result of these notifications are regularly presented to the Risk Committee for discussion. Within the context of outsourcing, the EAA relies on external service providers to establish a control framework for the PEG. Going forward, this control framework will be supplemented by the EAA's internal control system.

Contingency plans are also formulated with the intention of averting operational risks. The necessary insurance policies have been taken out in order to prevent financial losses.

In a general effort to avoid operational risks, the EAA's management aims to establish a sustainable risk management culture within the organisation.

Other risks

Reputational risks

Reputational risks encompass the risk that public reporting of the EAA or the transactions in which it engages results in damage to its reputation.

Given the strong public interest in the EAA, reputational risks are of particular relevance. The EAA also attaches particular importance to its public image with respect to its funding options on the capital market. To gauge its reputational risk, the EAA assesses the content of public statements made about the EAA in depth and discusses critical issues internally. Additionally, the EAA website fosters transparency.

Legal risks

Legal risks comprise risks arising from contractual agreements or statutory conditions which carry the risk of losses within and outside the EAA due to inadequate organisational or business structures or employee error.

Since the EAA is the first winding-up agency established in accordance with section 8a FMStFG, little experience has been gathered with regard to the new legal situation. Pursuant to section 8a (2) sentence 1 FMStFG, the EAA is subject to the legal supervision of the FMSA, which in turn is subject to the legal and technical supervision of the German Ministry of Finance. Supervision by the FMSA further ensures that the EAA complies with the statutory provisions and its charter.

On 22 June 2010 the EU Commission only provisionally extended its approval dated 22 December 2009 of the transfer of WestLB's securities to the EAA. In consultation with the FMSA, the EAA arrived at an understanding whereby the transfer of the risk exposures from WestLB to the EAA is valid and that the EU Commission is not calling the completed spin-off into question.

The EAA did not perform its own due diligence on the assets and liabilities transferred from WestLB and its subsidiaries prior to the transfer of the portfolio. Rather, the EAA relied solely on the completeness of WestLB's disclosure of risks pursuant to section 8a (4) no. 5 FMStFG. When the assets were transferred to the EAA, litigation attached to some of these assets was also transferred to the EAA. The EAA does not expect any imminent losses arising out of such litigation.

As the portfolio manager, WestLB must also identify and manage the legal risks arising in this context. The portfolio manager must identify the actual or imminent legal risks in the risk portfolio so that it can then initiate the requisite measures to minimise or eliminate them.

The EAA has assumed predominantly litigation before foreign courts from WestLB. Legal fees and other court costs arising in connection with the transferred portfolio are generally covered by the reimbursement of expenses made to WestLB for portfolio management in accordance with the provisions of the cooperation agreement.

Tax risks

Tax risks arise from potential changes in tax legislation, potential changes in case law or from potential errors in the application of the law.

The EAA uses clearly defined governance structures and processes to analyse and manage tax risks. The close co-operation between the governing bodies of the EAA and the PEG facilitate the identification of potential risks early on and clarification of these risks in advance through active communication with regulatory authorities and other government institutions. Where necessary, external specialists are engaged to consult on legal and tax issues.

Summary of risk situation

The EAA was formed in order to assume WestLB's risk exposures, and to wind these up in a manner that preserves value thanks to its special legal structure that includes a long-term winding-up plan. Short- and medium-term fluctuations in value are of less significance.

To that end, winding-up agencies in accordance with section 8a FMStFG were explicitly exempted from capital backing provisions, the obligation to prepare consolidated financial statements and other statutory provisions that apply to commercial banks. The EAA is thus primarily geared toward assuming credit risks. In terms of aggregate risk cover, the EAA has a capital base that is calculated on the basis of stressed anticipated losses. In addition, its charter has a firmly anchored duty on the part of the Liable Stakeholders to offset losses incurred.

In its risk management activities, the EAA strives to reduce the credit risk resulting from the winding-up of the portfolio. To that end, progress made in winding up the portfolio and deviations from the winding-up plan are monitored and contrasted against the plan at least on a monthly basis. Please refer to the section entitled "Wind-up report" for more detailed information.

The EAA's liquidity risk will continue to diminish with the increasing wide ranging ability of EAA to obtain funding on the capital markets at matching maturities.

By contrast, market and currency risks must largely be contained. The EAA followed this principle when it implemented its hedging and funding strategy. Thanks to its good rating, the EAA enjoys a stable funding situation. The EAA is working to develop a strict service provider management and an internal control system in order to manage operational risks.

As it continues to establish itself, the EAA will place further focus on sustainable and systematic risk management.

Accounting, internal control and risk management system

The objective of an accounting internal control and risk management system (ICS/RMS) is to ensure that financial reporting standards and regulations are complied with and that the integrity of the financial reporting is assured.

As part of their function as service providers, the EAA and WestLB have implemented an ICS/RMS that is appropriate for their financial reporting processes and business activities. The EAA's ICS/RMS primarily consists of guidelines and processes which offer reasonable assurance that business transactions are fully, promptly, and accurately measured and recorded on an accrual basis in accordance with statutory and other provisions so that

- public financial reporting provides a true and fair view of the institution's financial standing (integrity and reliability of financial reporting);
- decision makers and governing bodies are regularly and promptly informed of financial reporting data relevant to the management of the institution (internal reporting);
- an appropriate security apparatus is in place so that the unauthorised purchase, use or disposal of assets having a material impact on the financial reporting can be prevented or identified early on;
- an appropriate control and documentation environment is created (such as the separation of functions, compliance with established approval or authority levels, assurance of dual control in recording business transactions, the transmission of transaction and account balance confirmations, orderly documentation);
- the archiving and filing of documents and accounting-relevant papers which provide accurate, sufficiently detailed and appropriate information on business transactions and the use of assets is governed.

The EAA monitors the accounting-related ICS/RMS on an ongoing basis. Existing technical controls are regularly the subject of audits by WestLB's Internal Audit department and of external audits by the EAA's statutory auditor. The EAA plans to establish its own Internal Audit department in the future and has a general right to audit the portfolio manager itself.

Moreover, the financial reporting processes are included in the EAA's general risk management process with regard to operational risks. This is in order to prevent errors or misstatements to the extent possible, or to uncover them early on. All processes are documented in the organisational manual that is available to all employees.

Accounting policies are documented in electronic manuals and available to all departments. Annual, quarterly and monthly financial statements are prepared in accordance with a co-ordinated schedule. Compliance with the schedule is supported and monitored by the system. The EAA receives assistance in this from WestLB's Group Finance department.

New statutory and regulatory requirements are implemented and communicated promptly, depending on their scope and significance to the EAA. This is done in independent projects and via written instruction. Depending on the issues addressed, all relevant departments and management levels are involved in accordance with internal project guidelines.

The inclusion of Finance/Tax department employees in the relevant risk and management committees ensures that strategic and risk-related developments are also included promptly in financial accounting and reporting.

Transactions involving new products and/or new markets are subject to the New Project Process which is implemented by the Finance/Tax department.

Events after the close of the abridged financial year

There were no material events after the end of the abridged financial year that affected the annual financial statements. For information on the progress made in reducing the size of our portfolio and setting up operations, please refer to our remarks in the relevant sections of this report.

Outlook

The global economy is expected to grow by 4.1% this year, and then slow to 3.5% in 2011. The German economy is likely to expand more rapidly than the other eurozone countries (2% this year, 1.2% in 2011), with this expansion being fuelled primarily by increased exports thanks to the weak euro. In the medium-to-long term, the reduction of national deficits, increasing regulation and credit squeezes are expected to impair economic growth in many industrialised countries.

Real GDP growth in the US amounted to approximately 3% since the middle of 2009, based largely on non-recurring effects such as fiscal stimulus packages and the replenishment of inventories. Going forward, economic growth in the US is therefore likely to depend to a great degree on a sustained recovery in consumer demand. This, in turn, will depend in all likelihood on the development of the labour market, housing prices and the availability of credit in the US.

Inflation is currently not an acute problem for most industrialised countries, nor is it expected to be in the near future. The underlying trend toward rising prices is likely to remain flat due to the persistent under-utilisation of production capacity. Inflation risks may arise in the long-term at best due to the central banks' expansive monetary and fiscal policies. Given the restrictive fiscal policy and less-than-optimistic growth prospects, the ECB is not expected to raise interest rates this year or the next. And there are many indications that the Federal Reserve intends to wait a while longer before taking such action. Yields on 10-year Bunds are expected to be around 3% at the end of this year, and moderately higher in the next.

The decline in the value of the euro reflects the turbulence surrounding the peripheral eurozone countries and investor unease at unresolved institutional issues within the eurozone. The euro remains susceptible to further fluctuations in value. If the US economy continues to recover and economic indicators in the eurozone take a turn for the worse, this will lead to even more fluctuations in the exchange rate.

Over the medium term, a recovering economy should result in the EAA's portfolio gaining greater stability, as a large number of private-sector borrowers would then enjoy greater planning certainty. The EAA faces risks from the development of the overall economy primarily in relation to a further deterioration in the peripheral eurozone countries' financial situations and the US real estate market. It manages these risks by closely monitoring market and borrower risks in these sectors.

Due to a very small number of transaction-related issues, the IT migration was not yet fully wrapped up with WestLB as at the balance sheet date. The project continues to enjoy the highest priority. However, the EAA does not expect the final settlement and completion to materially affect the agency's financial position, cash flows and earnings situation.

Over the course of the next financial year, the EAA plans to conclude the start-up phase in large part and to focus more on its daily business. The reporting, IT and service provider management functions will be largely operational by the end of 2010. A detailed service provider management concept will be developed during the third quarter.

The EAA intends to update its funding plan during the second half of 2010 to align it with its total capital commitment, as well as to factor in market environment and the progress achieved in winding up the portfolio. It also plans to establish an issuing programme in order to broaden its investor base. To that end, the EAA is establishing business relationships with potential investors in Germany and abroad. In addition, it aims to enter into master agreements for derivatives and securities repo transactions with further counterparties in order to broaden its access to these products. Finally, the EAA intends expand its group of money market counterparties to enhance its ability to obtain short-term liquidity as well. The EAA's affiliates are actively included in its liquidity planning and management process so as to ensure optimal access to liquidity.

The EAA continues to regularly examine the option of recognising synthetically transferred assets directly on its balance sheet in order to optimise its management of risks.

Assuming the general economic conditions stabilise, the EAA anticipates that its earnings position will improve as compared to that of the abridged financial year. Moreover, nominal volume adjusted for exchange rate effects can be expected to decrease further as the portfolio is wound up.

Balance Sheet

as 30 June 2010

Assets

	Note	€	30 June 2010 €	11 Dec. 2009 € thousand
1. Loans and advances to banks	4, 14, 26, 35			
a) payable on demand		12,439,730,848.19		(0)
b) other loans and advances		3,360,715,636.18		(0)
			15,800,446,484.37	0
2. Loans and advances to customers	5, 6, 14, 26, 35		15,843,688,665.33	0
of which:				
secured by mortgage charges				
€ 593,055,256.62 (11 Dec. 2009: € 0 thousand)				
Public-sector loans				
€ 251,468,944.45 (11 Dec. 2009: € 0 thousand)				
3. Bonds and other fixed-income securities	7, 12, 15, 26			
Bonds issued by				
other issuers		18,836,738,975.90		(0)
of which:			18,836,738,975.90	
eligible as collateral with the Deutsche Bundesbank				
€ 0.00 (11 Dec. 2009: € 0 thousand)				
4. Equities and other				
non-fixed-income securities	8, 12		25,830,446.43	0
5. Long-term equity investments	9, 12, 43			
of which:			153,796,916.86	0
in banks				
€ 15,517,912.50 (11 Dec. 2009: € 0 thousand)				
in financial service providers				
€ 0.00 (11 Dec. 2009: € 0 thousand)				
6. Shares in affiliates	10, 12, 43		559,362,834.45	0
of which:				
in banks				
€ 498,237,851.52 (11 Dec. 2009: € 0 thousand)				
in financial service providers				
€ 9,616,191.04 (11 Dec. 2009: € 0 thousand)				
7. Unpaid contributions to subscribed capital			0.00	100
of which:				
called € 0.00 (11 Dec. 2009: € 0 thousand)				
8. Other assets	11, 34		430,589,539.97	0
9. Prepaid expenses	13, 34, 35		891,540,133.23	0
Total assets	24		**52,541,993,996.54**	**100**

Liabilities and equity

	Note	€	30 June 2010 €	11 Dec. 2009 € thousand
1. Deposits from banks	13, 16			
a) payable on demand		6,894,974,862.74		(0)
b) with an agreed maturity				
or withdrawal notice		4,579,985,011.92		(0)
			11,474,959,874.66	0
2. Deposits from customers	13, 17, 35			0
other deposits				
with an agreed maturity				
or withdrawal notice		4,752,000,545.13		(0)
			4,752,000,545.13	0
3. Debt securities in issue	13, 18			
a) Bonds		20,851,052,286.06		(0)
b) Other debt securities in issue		11,539,482,117.56		(0)
of which:			32,390,534,403.62	0
Money market instruments				
€ 0.00 (11 Dec. 2009: € 0 thousand)				
4. Other liabilities	19, 34		814,192,574.71	0
5. Deferred income	20, 34		900,452,351.93	0
6. Provisions other provisions	21	120,395,401.62		(0)
			120,395,401.62	0
7. Equity	22			
a) Subscribed capital		500,000.00		(100)
b) Capital reserves		3,137,006,319.58		(0)
c) Net accumulated losses		– 1,048,047,474.71		(0)
			2,089,458,844.87	100
Total liabilities and equity	24		**52,541,993,996.54**	**100**
1. Contingent liabilities				
Liabilities on guarantees				
and warrantees	30, 31, 33, 35	8,683,656,914.61		(0)
			8,683,656,914.61	0
2. Other obligations				
irrevocable loan commitments	30, 35	7,013,588,954.30		(0)
			7,013,588,954.30	0

Income Statement

for the period from 11 December 2009 to 30 June 2010

	Note	€	€	11 Dec. 2009–30 June 2010 €
1. Interest income from	25			
a) Lending and money market transactions		473,528,931.16		
b) Fixed-income securities				
and book-entry securities		369,627,001.07		
			843,155,932.23	
2. Interest expense			639,605,752.63	
				203,550,179.60
3. Current income from	25			
a) Equities and other				
non-fixed-income securities			2,763,519.88	
b) Long-term equity investments			396,090.60	
				3,159,610.48
4. Fee and commission income	25		28,891,062.46	
5. Fee and commission expense			10,469,547.17	
				18,421,515.29
6. Other operating income	25			617,705.51
7. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	36	558,662.94		
ab) Social security, post-employment				
and other employee benefit costs	21, 36	16,686.31		
of which:			575,349.25	
pension benefits				
€ 131.09				
b) Other administrative expenses			24,328,356.78	
				24,903,706.03
8. Other operating expenses				164.02
9. Depreciation, amortisation and valuation				
allowances on receivables and certain				
securities and transfers to provisions for				
the lending business	21, 26			431,498,881.67
10. Depreciation, amortisation and valuation				
allowances on long-term equity investments				
and shares in affiliates and long-term				
securities	12, 26			817,374,296.22
11. Result from ordinary activities				– 1,048,028,037.06
12. Taxes on income	28			19,437.65
13. Net loss for the year	22			– 1,048,047,474.71
14. Net accumulated losses	22			– 1,048,047,474.71

Notes

to the Financial Statements for the Short Financial Year from 11 December 2009 to 30 June 2010

General disclosures

1. Legal framework of Erste Abwicklungsanstalt

The Erste Abwicklungsanstalt (EAA) is a structurally and financially independent public law entity with partial legal capacity operating under the umbrella of the Financial Market Stabilisation Authority (*Bundesanstalt für Finanzmarktstabilisierung* – FMSA). Its registered office is in Düsseldorf. The FMSA established the EAA on 11 December 2009 and its formation was entered into the commercial register on 23 December 2009. In accordance with section 8a (1) sentence 10 in conjunction with section 3a (4) of the Financial Market Stabilisation Fund Act (*Finanzmarktstabilisierungsfondsgesetz* – FMStFG), the EAA is not obliged to produce consolidated financial statements, although the EAA exercises a controlling influence over subsidiaries that are not of minor significance.

The EAA's task is to assume and wind up risk exposures and non-strategic businesses/assets of WestLB AG (WestLB) in order to stabilise them and the financial market as a whole. The EAA conducts its transactions in accordance with economic principles having regard to its winding-up objectives and the principle of risk minimisation.

The EAA is not a credit institution within the meaning of the German Banking Act (*Kreditwesengesetz*) and does not conduct business that requires licenses pursuant to EU Directive 2006/48/EC of 14 June 2006. Although it is subject to regulation by BaFin, it is not fully regulated as a credit institution. The Agency was entered into the commercial register at the Düsseldorf Local Court on 23 December 2009.

The transfer of the risk exposures and non-strategic businesses/assets from WestLB to the EAA was primarily effected by way of a spin-off for acquisition (*Abspaltung zur Aufnahme*) pursuant to sections 123 (2) no. 1 of the German Reorganisation Act (*Umwandlungsgesetz* – UmwG) in conjunction with section 8a (8) of the FMStFG. It was completed in two phases, each time in exchange for shares in the EAA. In addition to the spin-off, sub-participation, contractual transfer and guarantee were also used as transfer channels.

Under the spin-off and transfer agreement of 12 December 2009, securities with a carrying amount of approximately € 6.2 billion and liabilities with a carrying amount of approximately € 5.5 billion were transferred. The spin-off generated equity of € 672 million for the EAA. The first spin-off was effected with retroactive effect to 1 January 2009. The spin-off was entered into the commercial register on 23 December 2009. The spin-off was based on the balance sheet of WestLB as at 31 December 2008 (spin-off balance sheet), which Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft had given an unqualified audit opinion.

In a second step, under the spin-off and transfer agreement of 24 April 2010, assets with a carrying amount of € 42,952 million as at 31 December 2009 and liabilities with a carrying amount of € 21,129 million (each including hedging transactions) were transferred, and equity of € 2,465 million was created, taking into account an equalisation claim. This spin-off was effected with retroactive effect to 1 January 2010. WestLB's equalisation claim of € 19,358 million vis-à-vis the EAA was settled as at 30 June 2010. In addition, contingent liabilities and other obligations amounting to € 7,570 million were transferred. The second spin-off was entered into the commercial register on 30 April 2010. The spin-off was based on the balance sheet of WestLB as at 31 December 2009 (spin-off balance sheet), which Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft had given an unqualified audit opinion. By contrast to the other transfer channels, in cases where the EAA accepts a guarantee, the guaranteed assets remain on the balance sheet of the WestLB Group. As a result, WestLB then continues to recognise income from the guaranteed assets on its income statement. In the period to 30 June 2010, the EAA generated income of € 9.8 million from guarantee fees paid by WestLB to the EAA for assuming the default risk.

The liabilities, which were spun off in two phases, will continue to be covered by guarantees issued by the State of North Rhine-Westphalia, the Sparkassenverbände in North Rhine-Westphalia and the Landschaftsverbände Rheinland and Westfalen (see Note 23).

2. Preparation of the financial statements for the abridged financial year

In accordance with section 8a (1) sentence 10 in conjunction with section 3a (4) of the FMStFG and the additional guidance of the EAA's Charter, the financial statements of the EAA for the abridged financial year from 11 December 2009 to 30 June 2010 have been prepared under the provisions of the German Commercial Code (*Handelsgesetzbuch* – HGB) for large public companies and the German Ordinance on Accounting for Banks (*Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute* – RechKredV). In doing so, we have taken into account the provisions changed as a result of the German Accounting Law Modernisation Act (*Bilanzrechtsmodernisierungsgesetz* – BilMoG) of 25 May 2009 which is mandatory for financial years beginning after 31 December 2008. If there is a choice of disclosure in either the balance sheet or the notes to the financial statements, the disclosure is made in the notes.

The current financial statements are the EAA's first financial statements. As a result, no comparative figures are available for the income statement. For presenting the changes in balance sheet headings, the balance sheet provides the figures from the opening balance sheet. Since the assets, liabilities and equity were only transferred to the EAA after its formation, the opening balance sheet only has entries for "Unpaid contributions to subscribed capital" and „Subscribed capital". This limits the comparability of the amounts.

The spin-off effected in 2009 took retroactive effect for accounting purposes on 1 January 2009. For this reason, the income statement includes expenses incurred and income generated before the beginning of the abridged financial year.

The financial statements for the abridged financial year will be uploaded to the electronic Federal Gazette (*elektronischer Bundesanzeiger www.ebundesanzeiger.de*).

3. Accounting policies

Assets, liabilities and pending contracts are measured in accordance with section 252 et seq. and sections 340 et seq. of the HGB.

Receivables are reported at their nominal values, less discounts and valuation allowances, if any. Liabilities are recognised at their repayment amount; the associated discounts are reported as prepaid expenses. Premiums on receivables or liabilities are reported as prepaid expenses or deferred income. The pro-rated interest determined as at the balance sheet date is recognised with the underlying receivable or liability. The premiums/discounts from the issuing and lending business are recognised according to the effective interest method.

Adequate account has been taken of identifiable risks in the lending business by recognising specific allowances and provisions. According to IDW Accounting Principle BFA 1/1990 on the recognition of global allowances for contingent credit risks in the annual financial statements of banks, contingent risk is calculated by multiplying by a factor that allows the observed past risk to be extrapolated into the future. For this type of contingent risk exposure of receivables and contingent receivables, global allowances have been recognised that have been derived from historical time series of a reference portfolio and doubled as at the balance sheet date on the basis of an expert estimate as a safeguard against structural and economic risks. For loans granted to borrowers in countries with acute transfer risk, we recognise aggregated country-specific allowances. The level of the allowance ratios is derived from the difference in return between top-rated government bonds and the prices for government securities of the country concerned that can be observed in the market within the respective set of remaining maturities for the loans granted. For countries that do not have observable market prices for government bonds, regularly updated loan loss allowance ratios published by external rating agencies are used. The group of countries with an increased risk is based on the country rating, which reflects the country‘s current and expected economic data as well as its general political situation; it is regularly adjusted.

The securities of the liquidity reserve are measured at the strict lower of market or book price. Securities treated as fixed assets (investment securities) are measured at cost. The differences between cost and redemption amount are recognised pro rata through profit and loss. For impairment expected to be permanent, write-downs are made to the lower net realisable value. If investment securities measured at the modified lower of cost or market are recognised at amounts in excess of their current market value, the differences must be disclosed separately in the notes. The amount disclosed changes over time as well as in response to interest rate or price changes.

The structured financial instruments are recognised in accordance with IDW Accounting Principle: Uniform or Separate Accounting for Structured Financial Instruments (IDW AcP HFA 22).

In the case of structured securities, we analysed the issue of whether impairment is expected to be permanent on the basis of specific reviews of individual securities. In doing so, the portfolios were analysed using different methods (top-down analyses, cash flow analyses, market measurement estimates for cases of forced winding-up). The results confirm the spreads of any measurement of assets in the current market environment and have been used as a benchmark for determining when impairment is expected to be permanent.

The EAA's portfolio of structured securities consists primarily of the Phoenix notes and the European Super Senior collateralised debt obligations. In addition, there are smaller commitments in various other structured asset classes ("Other ABSs"). The measurement models described in the paragraphs below are used for these asset classes.

The net realisable value of the Phoenix notes is calculated on the basis of forecast cash flows. To this end, the cash flows still to be expected for the underlying reference portfolios are estimated – at the level of individual assets. The cash flows are impacted in particular by the expected rate of default and loss given default as well as the timing of the default. In the case of major CDO exposures, there is further analysis of their pool of underlyings, applying an identical method. To determine the rate of default and the expected loss on the basis of externally rated individual assets, use is made of both empirical time series and estimates published by rating agencies and market participants. In addition, the expected losses determined for an asset are modified in relation to its rating and other external market data in order to take adequate account of the probability of loss. The forecast losses are aggregated and grouped according to when they are estimated to be incurred, taking into account a modelled structure of the liabilities (waterfall principle), and then discounted to the balance sheet date to calculate the write-down to be recognised.

The fair value of the Phoenix notes is determined using largely the same method as for determining their net realisable value. However, the calculations include all expected losses without modifying them in relation to their probability. In addition, they are discounted taking a liquidity spread into account. Because of the uncertainty associated with the measurement of complex products in the current market environment and the resulting illiquid markets, the fair values determined in this way are discounted by an amount determined by comparing them with alternative external data sources.

The net realisable value of the European Super Senior exposures is calculated on the basis of forecast cash flows. To this end, the cash flows still to be expected for the underlying reference portfolios are estimated – at the level of individual assets. The cash flows are impacted in particular by the expected rate of default and loss given default as well as the timing of the default. To determine the rate of default and the expected loss on the basis of externally rated individual assets, use is made of both empirical time series and estimates published by rating agencies and market participants. In addition, the expected losses determined for an asset are modified in relation to its rating and other external market data in order to take adequate account of the probability of loss. The forecast losses are aggregated and added together, taking into account a simplified modelled structure of the liabilities (waterfall principle) to calculate the write-down to be recognised.

The fair values of other ABS exposures are determined by using, as far as possible, prices quoted for the respective securities by an external market data provider. This data is plausibility checked using suitable methods. For securities for which no reliable prices or indicators are available, present value is calculated by discounting the contractually agreed cash flows using rating- and asset-class-specific spreads.

Generally measurements are based on market prices. If no suitable market prices are available for measurement (illiquid portfolios), valuation models are used. The assumptions and estimates required, in particular in connection with illiquid portfolios, are based on subjective management judgement and inevitably entail projection uncertainties. Even when our estimates are based on available information, past experience and other criteria, actual future events may still vary, which can have a not insignificant impact on our cash flows, financial condition and results of operations. In our opinion, the parameters used are appropriate and justifiable.

Long-term equity investments and shares in affiliates are reported at cost. For impairment expected to be permanent, write-downs are made to the lower net realisable value.

The return claims in securities lending transactions are reported under loans and advances to banks or customers. If securities have been lent that are measured like fixed assets, the receivables are measured according to the same principles. Any differences from the lower net realisable value are included in the figure reported for bonds.

Provisions for uncertain obligations and anticipated losses from pending contracts have been recognised in the amount of the expected settlement.

Derivative financial instruments (swaps, forward contracts, options) are pending contracts and therefore not reportable on the balance sheet. They are exclusively allocated to the non-trading portfolio. Financial instruments entered into to cover and manage interest rate and market price risks of the non-trading portfolio are subject to uniform control, together with on-balance sheet financial instruments. Changes in market value of these instruments are therefore not recognised on the balance sheet.

Amounts in foreign currency are translated in accordance with section 340h of the HGB and IDW Accounting Principle BFA 3/1995. Assets and liabilities denominated in foreign currency and unsettled foreign currency spot trades have been translated at the ECB reference rates as at 30 June 2010, open forward contracts (forward exchange and currency option contracts) have been translated at the mid forward rate or the option price for the same date. Hedged positions are translated at the hedge rate. Swap premiums from hedged balance sheet items are recognised pro rata.

Balance sheet positions and pending contracts denominated in foreign currency are treated and measured as specially hedged in each currency in accordance with section 340h (2) sentence 2 of the HGB. Accordingly, all expenses and income from currency translation are recognised in the income statement in accordance with section 340h (2) sentences 1 and 2 of the HGB. The total net loss from individually measuring all open foreign exchange transactions is reported under other liabilities.

Notes to the balance sheet

4. Loans and advances to banks

	30 June 2010 € million
Carrying amount	**15,800.4**
of which:	
– to affiliated companies	275.1
– to other investees and investors	–
payable on demand	12,439.7
due	
– within 3 months	816.7
– 3 months to 1 year	404.4
– 1 to 5 years	1,437.4
– after 5 years	702.2

Loans and advances to banks includes € 12.3 billion in return claims from securities lending transactions, of which € 0.5 billion with registered bonds.

5. Loans and advances to customers

	30 June 2010 € million
Carrying amount	**15,843.7**
of which:	
– to affiliated companies	469.1
– to other investees and investors	13.1
due	
– within 3 months	3.6
– 3 months to 1 year	2,709.4
– 1 to 5 years	7,356.4
– after 5 years	5,158.8
No stated maturity	615.5

Receivables also include registered and other non-negotiable bonds.

6. Receivables secured by mortgage charges

	30 June 2010 € million
Loans and advances to customers due	
– within 3 months	56.5
– 3 months to 1 year	80.4
– 1 to 5 years	104.8
– after 5 years	351.4
Carrying amount	**593.1**

7. Bonds and other fixed-income securities

	30 June 2010 € million
Carrying amount	**18,836.7**
of which:	
Amounts due in the following year	141.5
Breakdown	
– Bonds issued by other issuers	18,836.7
Breakdown by negotiability	
– Negotiable securities	18,836.7
of which	
– listed	233.9
– unlisted	18,602.8
Breakdown by type	
– Investment securities	18,836.7
Breakdown by affiliation	
– Securities of affiliated companies	–
– Securities of other investees and investors	–

As at the balance sheet date, the EAA had lent € 11.8 billion in bonds and other fixed-income securities to WestLB. These securities are not included in the above carrying amount; instead the corresponding return claims are reported under loans and advances to banks.

All bonds and other fixed-income securities are classified under investment securities and are therefore part of fixed assets. As at the balance sheet date, these financial assets were recognised with a carrying amount of € 28.3 billion and thus higher than their fair value of € 25.3 billion, because due to its long-term winding-up strategy and the expected performance of the long-term financial assets the EAA expects to receive redemption payments amounting to at least the carrying amount. This difference is primarily attributable to the structured credit products. The portfolio includes € 1.8 billion of bonds acquired as part of asset swaps. We refinance the portion of the above investment portfolio not hedged through asset swaps on an individual basis (€ 8.6 billion) either at matching maturities and in matching currencies or we hedge it at portfolio level against interest-rate-induced changes in value.

8. Equities and other non-fixed-income securities

	30 June 2010 **€ million**
Carrying amount	**25.8**
Breakdown by negotiability	
– Negotiable securities	25.8
of which:	
– listed	25.8
– unlisted	–
Breakdown by type	
– Liquidity reserve	25.4
– Investment securities	0.4

9. Long-term equity investments

	30 June 2010 **€ million**
Carrying amount	**153.8**
of which:	
– in banks	15.5
– in financial service providers	–
Breakdown by negotiability	
– Negotiable securities	15.5
of which:	
– unlisted	15.5

10. Shares in affiliates

	30 June 2010 € million
Carrying amount	**559.4**
of which:	
– in banks	498.2
– in financial service providers	9.6
Breakdown by negotiability	
– Negotiable securities	498.2
of which:	
– unlisted	498.2

The carrying amount of shares in affiliates is mainly characterised by equity investments in EAA Bank Ireland plc and EAA Covered Bond Bank plc, both domiciled in Dublin, Ireland. Although the assets held in both banks are included in the winding-up portfolio, they are not reported in the balance sheet and income statement of the EAA.

The lower net realisable value of the long-term equity investments and shares in affiliates, which have a volume of € 150.6 million, is € 14.3 million less than their carrying amount. We do not expect the impairment to be permanent.

11. Other assets

	30 June 2010 € million
Carrying amount	**430.6**
of which:	
– Premiums for options	345.4
– Guarantee fees and commissions	80.8
– Claims from swap transactions	2.2

12. Fixed assets

in € million	**Cost**	**Spin-off related-additions**	**Addi-tions**	**Retire-ments**	**Reclassi-fications**	**Reversals of write-downs**	**Accumulated depreciation, amortisation write-downs**	**Depreciation, amortisation, write-downs in short fin. year**	**Carrying amount**
	11 Dec. 2009						**30 June 2010**		**30 June 2010**
Bonds and other long-term fixed-income securities	0.0	30,857.8	Net change according to section 34 (3) sentence 2 of the RechKredV; € – 12,019.5 million					1,009.9[1]	18,836.7
Equities and other long-term non-fixed-income securities	0.0	0.4						0.0	0.4
Long-term equity investments	0.0	153.7						0.0	153.8
Shares in affiliates	0.0	557.9						0.0	559.4

[1] Excludes the effect of currency hedges

The net change includes retirements of bonds and other fixed-income securities from securities lending transactions with WestLB amounting to € 11.8 billion. The respective return claims are reported under loans and advances to banks.

In addition to additions and retirements, the change in securities in the abridged financial year also comprises portfolio changes as a result of the pro rata reversal of premiums and discounts. In the abridged 2009/2010 financial year, we recognised write-downs of € 1.0 billion on long-term securities for impairment expected to be permanent.

Further contributions were paid in to equity investments in private equity funds due to existing contractual contribution obligations.

13. Prepaid expenses

	30 June 2010 € million
Non-recurring payments on swaps	780.6
Discount from issuing business	102.2
Discount from liabilities	8.1
Other	0.6
Carrying amount	**891.5**

14. Subordinated assets

Subordinated assets are included in:

	30 June 2010 € million
Loans and advances to banks	45.1
of which: to affiliates	–
of which: to other investees and investors	–
Loans and advances to customers	89.7
of which: to affiliates	34.3
of which: to other investees and investors	8.2
Total	**134.8**

15. Assets sold under repurchase agreements

As at 30 June 2010, no assets had been sold under repurchase agreements.

16. Deposits from banks

	30 June 2010 € million
Payable on demand	6,895.0
Due	
– within 3 months	658.6
– 3 months to 1 year	404.8
– 1 to 5 years	2,103.2
– after 5 years	1,413.4
Carrying amount	**11,475.0**
of which:	
– Deposits from affiliates	–
– Deposits from other investees and investors	–

17. Deposits from customers

	30 June 2010 € million
Other deposits	4,752.0
of which:	
– Payable on demand	0.0
Due	
– within 3 months	217.0
– 3 months to 1 year	395.7
– 1 to 5 years	2,845.5
– after 5 years	1,293.8
Carrying amount	**4,752.0**
of which:	
– Deposits from affiliates	0.0
– Deposits from other investees and investors	–

18. Debt securities in issue

	30 June 2010 € million
Issued bonds	20,851.0
of which:	
Amounts due in the following year	9,633.0
Other debt securities in issue	11,539.5
of which due:	
– within 3 months	86.6
– 3 months to 1 year	386.5
– 1 to 5 years	7,085.4
– after 5 years	3,981.0
Carrying amount	**32,390.5**
of which:	
– to affiliates	–
– to other investees and investors	–

19. Other liabilities

	30 June 2010 € million
Carrying amount	**814.2**
of which:	
– Foreign exchange measurement differences	721.2
– Option premiums	57.0
– Outstanding fees from syndicated loan business	2.9
– Obligations from swaps	0.4

20. Deferred income

	30 June 2010 € million
Non-recurring payments on swaps	888.5
Premium on issuing business	4.9
Premiums for sold interest rate caps and floors	2.0
Other	5.1
Carrying amount	**900.5**

21. Provisions

	Balance as at 11 Dec. 2009 € million	Additions € million	Usage € million	Reversals € million	Other changes € million	Final balance 30 June 2010 € million
Other	0.0	115.8	5.0	2.4	12.0	120.4
– Loans	–	105.4	5.0	2.4	12.0	110.0
– Personnel	–	0.1	–	–	–	0.1
– Other	–	10.3	–	–	–	10.3
Total	**0.0**	**115.8**	**5.0**	**2.4**	**12.0**	**120.4**

As part of the transfer of assets, litigation in connection with certain of these assets was also transferred to the EAA. The EAA assumes that, due to the cost transfer arrangements in the cooperation agreement with WestLB, it will not incur any losses for these litigation risks. The EAA does not currently anticipate any losses on any new litigation pending in 2010.

22. Equity

The EAA's subscribed capital amounted to € 500,000.00 as at 30 June 2010.

The transfer of the first sub-portfolio on 23 December 2009 provided the EAA with a capital reserve of € 672.4 million. The capital reserve increased by another € 2,464.6 million as a result of the transfer of the principal portfolio as at 30 April 2010.

The EAA's net loss for the abridged 2009/2010 financial year amounted to € 1,048.0 million and will be carried forward to new account.

	Balance as at 11 Dec. 2009 € million	Spin-off-related additions € million	Appropriation of net loss € million	Balance as at 30 June 2010 € million
Subscribed capital	0.1	0.4	–	0.5
Capital reserve	–	3,137.0	–	3,137.0
Net accumulated losses	–	–	– 1,048.0	– 1,048,0
Equity under HGB	**0.1**	**3,137.4**	**– 1,048.0**	**2,089.5**

23. Legacy liabilities – grandfathering

If the shareholders were liable as guarantors for liabilities of WestLB AG in accordance with article 1 section 11 of the German Act on the Reorganisation of the Legal Relationships of the Public Law Banks in North Rhine-Westphalia (*Gesetz zur Neuregelung der Rechtsverhältnisse der öffentlich-rechtlichen Kreditinstitute in Nordrhein-Westfalen*) of 2 July 2002 in conjunction with article 1 section 4 (6) of the German Act on the Restructuring of the Landesbank of North Rhine-Westphalia into the Development Bank of North Rhine-Westphalia (*Gesetz zur Umstrukturierung der Landesbank Nordrhein-Westfalen zur Förderbank des Landes Nordrhein-Westfalen*) and other laws of 16 March 2004, this liability continues to the same extent after the transfer of the liabilities to the EAA.

With regard to the guarantor liability (*Gewährträgerhaftung*), the following grandfathering arrangements apply to liabilities entered into before 19 July 2005:

- All liabilities and obligations of Westdeutsche Landesbank Girozentrale that had already been agreed as at 18 July 2001 are, without restriction, covered by the guarantor liability until maturity.

- The liabilities and obligations entered into by Westdeutsche Landesbank Girozentrale or WestLB AG in the period between 19 July 2001 and 18 July 2005 will remain covered by the guarantor liability in its original form, unless they mature after 31 December 2015; if they mature after that date, they are not covered by the guarantor liability.

The guarantors of the former Westdeutsche Landesbank Girozentrale will meet their obligations under the guarantor liability vis-à-vis the EAA immediately, if they have duly established in writing at the time of maturity of the respective liability that the lenders cannot get any satisfaction from the EAA's assets. This specifically includes the possibility that the liabilities can be met in direct temporal connection with the maturity. Notification of state aid is not required in such cases.

24. Assets/liabilities denominated in foreign currency

As at the balance sheet date there were assets of € 49.6 billion and liabilities of € 21.5 billion denominated in foreign currency.

Notes to the income statement

25. Geographical breakdown of income components

11 Dec. 2009–30 Jun. 2010 € million	**Interest income**	**Current income**	**Fee and commission income**	**Other operating income**
Düsseldorf	443.1	2.9	24.7	0.5
London	227.8	0.3	1.9	0.1
New York	172.3	–	2.3	0.0
Income statement amount	**843.2**	**3.2**	**28.9**	**0.6**

The earnings are allocated to geographical segments on the basis of the booking codes of the EAA.

26. Allowances for losses on loans and advances

Write-downs and allowances in accordance with section 340f (3) and section 340c (2) of the HGB

	11 Dec. 2009–30 June 2010 € million
Allowance for losses on loans	431.5
Write-downs for losses on long-term securities*	817.4
of which not lending-related	6.8
Risk result incl. structured loans	**1,255.7**

* Includes hedging gains of € 185.7 million

The EAA always makes use of the options available under section 340f (3) and section 340c (2) of the HGB. Under section 340f (3) of the HGB, income and expenses from measurement in the lending business may be reported on a net basis with allowances for losses on securities and income from the reversal of allowances on securities in the liquidity reserve. In the abridged 2009/2010 financial year there was no measurement result for securities in the liquidity reserve. The net expense from measurement in the lending business amounts to € 431.5 million. Under section 340c (2) of the HGB, the expenses for long-term equity investments, shares in affiliated and long-term securities may be offset against the respective income. There was no measurement result for long-term equity investments and shares in affiliates. In total, we report costs of € 817.4 million under risk result for long-term equity investments and securities. In the abridged 2009/2010 financial year, we recognised write-downs on investment securities for impairment expected to be permanent. Internally we report these effects as part of the allowances for acute counterparty credit risk.

27. Prior-period expenses and income

There was no material expenses and income relating to prior periods in the short 2009/2010 financial year.

28. Taxes on income

The result from ordinary activities of the EAA is subject to foreign taxes of income of € 19 thousand.

29. Fees paid to the auditors

The fees paid to the auditors for auditing the financial statements amounted to € 0.2 million. No other auditor fees were charged in accordance with section 285 no. 17 of the HGB.

Other disclosures

30. Contingencies

Contingent liabilities

	30 June 2010 € million
Liability on guarantee and warranty agreements	8,683.7

The contingent liabilities are primarily the result of risk accepted from WestLB. They include obligations from credit default swaps amounting to € 1,150.1 million.

Other obligations

Irrevocable loan commitments are undrawn lines of credit granted to external third parties.

The reported volume of € 7.0 billion is attributable to the lending business.

31. Letters of comfort

Apart from the political risk, the EAA ensures, to the extent required by the interest it holds, that EAA Bank Ireland plc, Dublin, which is currently wholly owned by the EAA, can meet its obligations for as long as it holds the majority of shares. Any reduction in our interest in this company will also decrease our obligation under the above letter of comfort with regard to those obligations of the company that have only been entered into after the reduction of our shareholding.

In addition to the above letter of comfort, the EAA has assumed from WestLB AG, by way of universal succession, all obligations under a global guarantee provided by WestLB AG for EAA Covered Bond Bank plc, Dublin. This guarantee will hold for as long as the EAA owns the majority of the shares in this bank. Any reduction in our interest in this bank will also decrease our obligation under the above global guarantee with regard to those obligations of the bank that have only been entered into after the reduction of our shareholding.

32. Off-balance-sheet transactions

Provision of collateral for own liabilities

The EAA has provided cash collateral or assigned assets as collateral to third parties to secure own liabilities:

	30 June 2010 € million
Cash collateral provided for derivative financial instruments	393.5
Receivables assigned for public credit programmes	2.9
Total assigned collateral	**396.4**

Outsourcing

The EAA operates on the basis of a comprehensive outsourcing model. The EAA's organisational structure is oriented toward assuring its own key management and control functions. It has outsourced all other functions to WestLB and external service providers.

The EAA has signed a three-year cooperation agreement with WestLB, under which WestLB supports the EAA in portfolio management and all related activities. This cooperation agreement includes separate service level agreements for specific processes and functions. They include in particular the operational winding up of the securities and lending business and of payment transactions. In addition, WestLB carries out risk management, management reporting, accounting and liquidity management. All portfolio management transactions are subject to WestLB's established winding-up process, in compliance with the Minimum Requirements for Risk Management (*Mindestanforderungen an das*

Risikomanagement – MaRisk). WestLB is obliged to perform the management functions assigned to it in such a way that they are in line with the winding-up plan.

However, decision making authority remains fully with the EAA. Due to the key importance the outsourced activities have for the EAA, the EAA currently implements integrated service provider management, which systematically controls and monitors the service relationships between the EAA and WestLB as well as the external service providers from a legal, substantive, process and financial perspective.

33. Other financial commitments

There are other financial commitments from service agreements and from uncalled outstanding capital contribution commitments and as yet undrawn lines from private equity investments totalling € 257.6 million (of which with affiliates: € 0 million).

34. Forward contracts/derivative financial instruments

As part of its business activities, the EAA enters into forward contracts and derivative financial instruments of the following types:

- **Interest-rate-related products**
  Interest rate swaps, interest rate futures, forward rate agreements (FRAs), interest rate caps, interest rate floors, interest rate collars, swaptions and interest rate options

- **Currency-related products**
  Cross-currency interest rate swaps, forward cross-currency interest rate swaps, forward exchange contracts and currency option contracts

- **Equity- and other price-related products**
  Share options, index options, share and index warrants in issue

- **Credit derivatives**
  Credit default swaps, total return swaps and credit linked notes

On the basis of nominal values, the total volume of forward contracts and derivative financial instruments was € 102.5 billion as at the balance sheet date. The focus is on interest-rate-related products, which account for 64.3% of the total volume.

If they are exchange-traded, derivative financial instruments are measured at the market price at the balance sheet date. For non-exchange-traded derivatives, market values were determined on the basis of actuarial measurement models as well as valuation parameters available in the market (including interest rates, interest rate volatilities, exchange rates).

Derivative financial instruments – volumes as at the balance sheet date

in € million	Nominal values 30 June 2010	Positive market values 30 June 2010	Negative market values 30 June 2010
Interest-rate-related products	**65,840**	**1,686**	**1,424**
OTC products	65,840	1,686	1,424
Currency-related products	**31,391**	**123**	**677**
OTC products	31,391	123	677
Equity- and other price-related products	**3,563**	**337**	**39**
OTC products	3,563	337	39
Credit derivatives	**1,667**	**98**	**105**
OTC products	1,667	98	105
Total derivative financial instruments	**102,461**	**2,244**	**2,245**
OTC products	102,461	2,244	2,245

The forward contracts and derivative financial instruments are exclusively entered into for hedging purposes.

Information on carrying amounts, which is only relevant in the case of option premiums paid or received and in the case of paid interest components, is provided under "Other assets" and "Prepaid expenses" as well as under "Other liabilities" and "Deferred income" on the balance sheet.

Most interest-rate- and currency-related products and credit derivatives are medium to long term with remaining maturities of more than one year. Products with equity and other price risks are primarily in the short- to medium-term range.

Derivative financial instruments – maturities

Nominal values in € million	Interest-rate-related products 30 June 2010	Currency-related products 30 June 2010	Equity- and other price-related products 30 June 2010	Credit derivatives 30 June 2010
due				
– within 3 months	16,410	731	317	89
– 3 months to 1 year	8,150	5,205	1,914	55
– 1 to 5 years	29,429	24,913	1,239	1,141
– after 5 years	11,851	542	93	382
Total	**65,840**	**31,391**	**3,563**	**1,667**

35. Related-party disclosures

The following items include transactions with affiliates and other investees and investors:

	30 June 2010 € million
Loans and advances to banks	
– Affiliates	275.1
– Other investees and investors	–
Loans and advances to customers	
– Affiliates	469.1
– Other investees and investors	13.1
Prepaid expenses	
– Affiliates	0.2
– Other investees and investors	–
Deposits from customers	
– Affiliates	0.0
– Other investees and investors	–
Liabilities from guarantees and irrevocable loan commitments	
– Affiliates	26.9
– Other investees and investors	8.8

As at 30 June 2010, there were no business relations with our shareholders.

Related-party transactions are conducted at arm's length.

36. Remuneration paid to executive bodies

The remuneration paid to the members of the Managing Board and Interim Managing Board totalled € 439.7 thousand in the 2009/2010 financial year.

In accordance with the rules of procedure, the members of the Supervisory Board did not receive any remuneration in the abridged 2009/2010 financial year.

37. Loans to executive bodies

No loans or advances were granted to members of the Managing Board or the Supervisory Board of the EAA.

38. Number of employees

The average number of employees was as follows in the abridged 2009/2010 financial year:

Number of employees	**female**	**male**	**total 2009/2010**
	2	4	6

39. EAA shareholders

Shareholders	**Interest held**	
	30 June 2010 in %	**11 Dec. 2009 in %**
State of North Rhine-Westphalia	48.202	37.748
Rheinischer Sparkassen- und Giroverband (RSGV)	25.032	25.032
Sparkassenverband Westfalen-Lippe (SVWL)	25.032	25.032
Landschaftsverband Rheinland (LVR)	0.867	6.094
Landschaftsverband Westfalen-Lippe (LWL)	0.867	5.440
Westfälisch-Lippische Vermögensverwaltungsgesellschaft mbH (WLV)	–	0.654
Total	**100.000**	**100.000**

The shareholdings changed when the Act on the Implementation of the Federalism Reform in Housing, to Increase the Subsidy Options of the NRW.BANK and to Amend Other Laws (*Gesetz zur Umsetzung der Föderalismusreform im Wohnungswesen, zur Steigerung der Fördermöglichkeiten der NRW.BANK und zur Änderung anderer Gesetze*) came into effect. As part of this change, all the shares held by WLV and some of the shares held by LVR and LWL were transferred to the State of North Rhine-Westphalia.

40. Memberships of other bodies held by Managing Board members

In the abridged 2009/2010 financial year, the following members of the Managing Board of the EAA were members of a Supervisory Board or other supervisory bodies of large public companies pursuant to section 340a (4) no. 1 in conjunction with section 267 (3) of the HGB.

Matthias Wargers
Westdeutsche ImmobilienBank AG (until 15 February 2010)
WestLB Securities Inc. (until 15 February 2010)

41. Memberships of other bodies held by employees

In the abridged 2009/2010 financial year, no employees of the EAA were members of a Supervisory Board or other supervisory bodies of large public companies pursuant to section 340a (4) no. 1 in conjunction with section 267 (3) of the HGB.

42. Executive bodies of the EAA

Members of the Managing Board of the EAA

Matthias Wargers (since 15 February 2010)
Markus Bolder (since 1 March 2010)

Members of the Interim Managing Board of the EAA

Dieter Jötten (11 December 2009 to 5 February 2010)
Oliver Blaß (11 December 2009 to 28 February 2010)

The members of the Interim Managing Board were appointed by the FMSA to establish the EAA. They returned to the delegating organisations as planned on the dates stated above. The EAA was at all times duly represented in accordance with statuary provisions, during the period from 5 to 15 February by a member of the Managing Board and a commercial attorney-in-fact (*Prokurist*).

Members of the Supervisory Board of the EAA

Dr. Rüdiger Messal (since 23 September 2010)
Chairman (since 4 October 2010)
State Secretary in North Rhine-Westphalia's Finance Ministry

Angelika Marienfeld (until 22 September 2010)
Chairman (until 22 September 2010)
State Secretary (retired) in North Rhine-Westphalia's Finance Ministry

Joachim Stapf
Deputy Chairman
Undersecretary (Leitender Ministerialrat) in North Rhine-Westphalia's Finance Ministry

Dr. Karlheinz Bentele
Former President of the Rheinischer Sparkassen- und Giroverband and former member of the Steering Committee (Leitungsausschuss) of the Financial Market Stabilisation Authority (Bundesanstalt für Finanzmarktstabilisierung)

Ralf Fleischer
Managing Director of the Rheinischer Sparkassen- und Giroverband

Henning Giesecke
Managing Director of GSW Capital Management GmbH
Former Chief Risk Management Officer of HypoVereinsbank AG and UniCredit Group

Wilfried Groos
Chairman of the Managing Board of the Sparkasse Siegen

Professor Michael Ilg
Member of the Managing Board of the Sparkassenverband Westfalen-Lippe

Dr. Wolfgang Kirsch
Director of the Landschaftsverband Westfalen-Lippe

Michael Stölting
Member of the Managing Board of NRW.BANK

Adolf Terfloth
Chairman of the Managing Board of the Sparkasse Düren

Dr. Uwe Zimpelmann
Former Chairman of the Landwirtschaftliche Rentenbank

Stakeholders' Meeting of the EAA

The Stakeholders' Meeting is made up of the shareholders (see Note 39).

43. Information on shareholdings

Cons. no.	Name	Place	Interest	Percentage of voting rights, if different	Currency	Equity	Result
			%	%		€ thousand	€ thousand
1	Banco Finantia S.A.[5]	Lisboa, Portugal	8.32	8,46	EUR	353,200.00	12,100.00
2	Basinghall Commercial Finance Limited[4]	London, United Kingdom	100.00		GBP	6,337.19	524.16
3	Basinghall Finance plc[4]	London, United Kingdom	100.00		GBP	– 5,763.65	– 12,702.54
4	Candover 2001 GmbH & Co. KG[4]	Frankfurt am Main	26.89	0	EUR	19,754.00	– 860.00
5	CCP VII GmbH & Co. KG[5]	Frankfurt am Main	27.75	0	EUR	12,106.10	– 433.30
6	COREplus Private Equity Partners II – Diversified Fund, L. P.[5]	Wilmington, USA	24.75	0	USD	23,208.39	1,844.21
7	CWB Capital Partners Limited[5]	London, United Kingdom	25.00		GBP	283.81	2.47
8	EAA Bank Ireland plc[5]	Dublin, Irland	100.00		EUR	241,510.00	7,522.00
9	EAA Covered Bond Bank plc[5]	Dublin, Irland	100.00		EUR	246,788.00	17,325.00
10	Euro-Equity Holding GmbH[2, 5]	Düsseldorf	100.00		EUR	49.60	0.00
11	Fernbach S.A.[4]	Munsbach, Luxemburg	38.79		EUR	– 2,167.28	– 216.05
12	GSC European Mezzanine Offshore Unleveraged Parallel Fund II L.P.[5]	George Town, Grand Cayman, Cayman Island	27.11	0	EUR	21,821.50	3,510.60
13	Home Funding Ltd.[1, 4]	Tenterden, United Kingdom	40.00		GBP	422.27	– 261.09
14	International Leasing Solutions Japan K.K.[5]	Tokyo, Japan	100.00		JPY	273.73	– 1,342.14
15	Klenk Holz AG[5]	Oberrot	21.87		EUR	– 8,270.00	– 6,681.00
16	MIG Immobiliengesellschaft mbH[3]	Mainz	40.91		EUR	0.00	168.50
17	Special PEP II GP Investors, L.L.C.[4]	Wilmington, USA	50.00	0	USD	450.60	19.63
18	Standard Chartered (SFD No. 2) Limited[4]	London, United Kingdom	25.00		USD	0.15	602.25
19	Ulisse GmbH[4]	Düsseldorf	100.00		EUR	65.46	– 33.61
20	WestLB Asset Management (US) LLC[3]	Wilmington, USA	100.00		USD	630.68	448,08
21	WestLB Equity Fonds GmbH[2, 5]	Düsseldorf	100.00		EUR	25.00	0.00
22	WestLB Participation One GmbH[2, 5]	Düsseldorf	100.00		EUR	43.327.00	0.00
23	WestLB Venture Capital Management GmbH & Co. KG[5]	München	50.00		EUR	130.00	64.65

[1] Held indirectly
[2] Profit and loss transfer agreement signed with this company
[3] Only data as at 31 Dec. 2007 is available
[4] Only data as at 31 Dec. 2008 is available
[5] Only data as at 31 Dec. 2009 is available

Düsseldorf, 7 September 2010

Erste Abwicklungsanstalt

The Managing Board

Matthias Wargers

Markus Bolder

Auditors’ Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the Erste Abwicklungsanstalt, Düsseldorf, for the short financial year from 11 December 2009 to 30 June 2010. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law are the responsibility of the institution's Managing Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 German Commercial Code (*Handelsgesetzbuch* – HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer in Deutschland* – IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the institution and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the institution's Managing Board as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the institution in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the institution's position and suitably presents the opportunities and risks of future development.

Düsseldorf, dated 8 September 2010
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Clemens Koch)	(Susanne Beurschgens)
German public auditor	German public auditor

Translation of the auditors' report issued in German language on the financial statements prepared in German language by the management of EAA, Duesseldorf. The German language statements are decisive.

Responsibility statement in accordance with section 264 (2) sentence 3 HGB

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

Düsseldorf, 7 September 2010

Erste Abwicklungsanstalt

The Managing Board

Matthias Wargers

Markus Bolder

List of abbreviations

ABS
Asset backed securities

APAC
Asia-Pacific region

ALCO
Asset Liability Committee

BaFin
German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht)

BFA 3/1995
Banking Technical Committee (Bankenfachausschuss) – Communiqué on currency conversion at credit institutions

BilMoG
German Accounting Law Reform Act (Bilanzrechtsmodernisierungsgesetz)

CDO
Collaterized Debt Obligation

EAA
Erste Abwicklungsanstalt (First Winding-Up Agency)

EAA GW
EAA Global Watch List

EMEA
Europe, Middle East and Africa region

EUSS
European Super Senior Notes

EMU
European Monetary Union

ECB
European Central Bank

FMS
Financial Market Stabilisation Fund (Finanzmarktstabilisierungsfonds)

FMSA
Financial Market Stabilisation Authority (Bundesanstalt für Finanzmarktstabilisierung)

FMStBG
German Act to Accelerate Financial Market Stabilisation (Finanzmarktstabilisierungsbeschleunigungsgesetz)

FMStFG
German Financial Market Stabilisation Act (Finanzmarktstabilisierungsfondsgesetz)

FRAs
Forward rate agreements

FX-Effect
Foreign Exchange Effect

HGB
German Commercial Code (Handelsgesetzbuch)

IDW
Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland e.V.)

IDW RS HFA 22
IDW Accounting Principle: Uniform or Separate Accounting for Structured Financial Instruments

ICS/RMS
Internal Control System and Risk Management System

IMF
International Monetary Fund

KWG
German Banking Act (Kreditwesengesetz)

LVR
Landschaftsverband Rheinland

LWL
Landschaftsverband Westfalen-Lippe

MaRisk
Minimum Requirements for Risk Management

MIS-Reporting
Management Information Systems Reporting

NRW
North Rhine-Westphalia

OTC Products
Over-the-counter products

PEG
Portfolio Exit Group

PV01
Parallel shift in the yield curve by one basis point

Rech-KredV
Ordinance on Accounting for Banks

RiskCo
Risk Committee

RSGV
Rheinischer Sparkassen- und Giroverband

SVWL
Sparkassenverband Westfalen-Lippe

UmwG
German Reorganisation Act (Umwandlungsgesetz)

WestLB
WestLB AG

WLV
Westfälisch-Lippische Vermögensverwaltungsgesellschaft mbH

Erste Abwicklungsanstalt
Elisabethstraße 65
40217 Düsseldorf
Tel.: +49 211 826-7871
+49 211 826-7881
Fax: +49 211 826-7882

www.aa1.de
info@aa1.de

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Erste
Abwicklungsanstalt

Erste Abwicklungsanstalt
Elisabethstraße 65
40217 Düsseldorf
Tel.: +49 211 826 7871
+49 211 826 7881
Fax: +49 211 826 7882
e-mail: info@aa1.de